

**REPORT OF THE AUDIT OF THE
WARREN COUNTY
FISCAL COURT**

**For The Fiscal Year Ended
June 30, 2005**



**CRIT LUALLEN
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EXECUTIVE SUMMARY

AUDIT EXAMINATION OF THE WARREN COUNTY FISCAL COURT

June 30, 2005

The Auditor of Public Accounts has completed the audit of the Warren County Fiscal Court for fiscal year ended June 30, 2005.

We have issued unqualified opinions on the governmental activities, business-type activities, each major fund, and aggregate remaining fund information of Warren County, Kentucky.

We have issued an adverse opinion, on the aggregate discretely presented component units of the Warren County Fiscal Court, which include the Southern Kentucky Performing Arts Center, Inc., the Inter-Modal Transportation Authority, Inc., and the South Central Kentucky Regional Development Authority, because the financial statements do not include the financial data of the Southern Kentucky Performing Arts Center, Inc. and the South Central Kentucky Regional Development Authority.

Financial Condition:

The fiscal court had net assets of \$41,967,338 as of June 30, 2005. The fiscal court had unrestricted net assets of \$3,276,426 in its governmental activities as of June 30, 2005, with total net assets of \$41,699,978. In its business-type activities, total net cash and cash equivalents were \$246,609 with total net assets of \$267,360. The fiscal court's discretely presented component unit had unrestricted net assets of \$2,955,085 as of June 30, 2005, with total net assets of \$3,521,007 as of June 30, 2005. The fiscal court had total debt principal as of June 30, 2005 of \$49,337,983 with \$1,566,983 due within the next year. The discretely presented component unit had total debt principal as of June 30, 2005 of \$24,596,036 with \$0 due within the next year.

Deposits:

As of June 30, 2005, the fiscal court and its component unit's deposits were insured and collateralized by bank securities.

CONTENTS

PAGE

INDEPENDENT AUDITOR'S REPORT	1
WARREN COUNTY OFFICIALS	3
MANAGEMENT'S DISCUSSION AND ANALYSIS	5
STATEMENT OF NET ASSETS - MODIFIED CASH BASIS.....	17
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS	22
BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS	26
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS	30
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS	35
STATEMENT OF NET ASSETS - PROPRIETARY FUND - MODIFIED CASH BASIS	39
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS - PROPRIETARY FUND - MODIFIED CASH BASIS	43
STATEMENT OF CASH FLOWS - PROPRIETARY FUND - MODIFIED CASH BASIS.....	47
STATEMENT OF FIDUCIARY NET ASSETS - FIDUCIARY FUNDS - MODIFIED CASH BASIS	51
NOTES TO FINANCIAL STATEMENTS.....	54
BUDGETARY COMPARISON SCHEDULES - MAJOR FUNDS	91
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION.....	96
COMBINING BALANCE SHEET - NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS.....	99
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS	102
SCHEDULE OF FINDINGS AND QUESTIONED COSTS.....	107
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS.....	111
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS.....	112
REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS.....	115
REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133	119
APPENDIX A: CERTIFICATION OF COMPLIANCE - LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAM	



CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky

Honorable Ernie Fletcher, Governor

John R. Farris, Secretary

Finance and Administration Cabinet

Honorable Michael O. Buchanon, Warren County Judge/Executive

Members of the Warren County Fiscal Court

Independent Auditor's Report

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of Warren County, Kentucky, as of and for the year ended June 30, 2005, which collectively comprise the basic financial statements of the County, as listed in the table of contents. These financial statements are the responsibility of the Warren County Fiscal Court. Our responsibility is to express opinions on these financial statements based on our audit.

We did not audit the financial statements of the Inter-Modal Transportation Authority, Inc. (ITA), a discretely presented component unit of the Warren County Fiscal Court; which represents 100% of the assets and revenues of the financial data presented for the discretely presented component unit presentation. Those financial statements were audited by another auditor whose report thereon has been furnished to us, and our opinion on the aggregate discretely presented component units, insofar as it relates to the amounts included for ITA, is based on the report of the other auditor.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Fiscal Court Audits issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the report of other auditors provide a reasonable basis for our opinions.

As described in Note 1, management of Warren County Fiscal Court prepares the financial statements on a prescribed basis of accounting that demonstrates compliance with the modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

The financial statements of ITA, a discretely presented component unit of the Warren County Fiscal Court, are presented in accordance with the accrual basis of accounting and therefore include certain accruals required by accounting principles generally accepted in the United States of America that are not presented in accordance with the modified cash basis. The amounts by which these accruals affect the financial statements are not reasonably determinable.



To the People of Kentucky
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The financial statements also do not include the financial data of the Southern Kentucky Performing Arts Center, Inc. and the South Central Kentucky Regional Development Authority, both entities that meet the criteria to be reported as discretely presented component units of Warren County, Kentucky, in accordance with accounting principles generally accepted in the United States of America.

In our opinion, based on our report and the report of other auditors, because of the effects of the matters discussed in the two previous paragraphs, the financial statements referred to above do not present fairly, in all material respects, the financial position of the aggregate discretely presented component units of Warren County, Kentucky, as of June 30, 2005, and the changes in financial position thereof for the year then ended in conformity with the basis of accounting described in Note 1.

In addition, in our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Warren County, Kentucky, as of June 30, 2005, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with the basis of accounting described in Note 1.

The management's discussion and analysis and budgetary comparison information are not a required part of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Warren County, Kentucky's basic financial statements. The accompanying combining fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments and Non-Profit Organizations, and is not a required part of the basic financial statements. The combining fund financial statements and the schedule of expenditures of federal awards have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

In accordance with Government Auditing Standards, we have also issued our report dated October 13, 2006, on our consideration of Warren County, Kentucky's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Respectfully submitted,



Crit Luallen
Auditor of Public Accounts

October 13, 2006

WARREN COUNTY OFFICIALS

For The Year Ended June 30, 2005

Fiscal Court Members:

Michael O. Buchanon	County Judge/Executive
James T. Kaelin	Magistrate
Cedric Burnam	Magistrate
Eddie Beck	Magistrate
Thomas Hunt	Magistrate
Terry W. Young	Magistrate
Robert Donoho	Magistrate

Other Elected Officials:

Amy Milliken	County Attorney
Jackie Strode	Jailer
Dorothy Owens	County Clerk
Pat Howell Goad	Circuit Court Clerk
Jerry Gaines	Sheriff
William Carter	Property Valuation Administrator
Kevin Kirby	Coroner

Appointed Personnel:

Jerry Pearson	County Treasurer
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MICHAEL O. BUCHANON

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WARREN COUNTY JUDGE EXECUTIVE

FAX: (270) 781-2777

Management's Discussion and Analysis June 30, 2005

The financial management of Warren County, Kentucky offers readers of Warren County's financial statements this narrative overview and analysis of the financial activities of Warren County for the fiscal year ended June 30, 2005. We encourage readers to consider the information presented here in conjunction with other information that we have furnished in our letter of transmission and the notes to the financial statements.

Financial Highlights.

- Warren County had net assets of \$41,967,338 as of June 30, 2005. The fiscal court had unrestricted net assets of \$3,276,426 in the governmental activities as of June 30, 2005, with total net assets of \$41,699,978. In the business-type activities, cash, and cash equivalents were \$246,609 with total net assets of \$267,360.
- The governmental activities' total net assets decreased by \$3,347,461 from the prior year. This decrease is primarily due to increased deficits in the Jail and Sheriff's budget; expenses covered by grants from the State of Kentucky not reimbursed until after June 30, 2005; and reclassifying parks improvements from construction in progress to depreciable capital assets.
- At the close of the current fiscal year, Warren County governmental funds reported current assets of \$4,389,906. Of this amount, \$4,389,906 is available for spending at the government's discretion (unreserved fund balance).
- Warren County's total indebtedness at the close of fiscal year June 30, 2005 was \$49,337,983, of which \$47,896,410 is long-term (due after 1 year) and \$1,441,573 is short-term (to be paid within 1 year). Debt additions were \$2,850,000, and debt reductions were \$4,250,823 for a net decrease of \$1,400,823 for the year. This decrease was due to the refinancing of the Public Projects Revenue Project, Series 1996 bonds and principal payments made during the year.

Overview of the Financial Statements.

This management discussion and analysis is intended to serve as an introduction to Warren County's basic financial statements. Warren County's basic financial statements are comprised of three components: 1) government wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide Financial Statements.

The *government-wide financial statements* are designed to provide readers with a broad overview of Warren County's finances, in a manner similar to a private-sector business.

The *Statement of Net Assets* presents information on all of Warren County's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of Warren County is improving or deteriorating.

The *Statement of Activities* presents information showing how the government's net assets changed during the fiscal year. All changes in net assets are reported on a modified cash basis of accounting. Basis of accounting is a reference to when financial events are recorded, such as timing for recognizing revenues, expenses, and related assets and liabilities.

Under the county's modified cash basis of accounting, revenues and expenses and related assets and liabilities are recorded when they result from a cash transaction, except for the recording of depreciation expenses on capital assets in the government-wide financial statements for all activities and in the fund financial statements for the proprietary fund financial statements.

As a result of the use of the modified cash basis of accounting, certain assets and their related revenues (such as amounts billed for services provided, but not collected) and accounts payable (expenses for goods and services received but not paid) or compensated absences are not recorded.

Both of the government-wide financial statements distinguish functions of the County that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or significant portion of their costs through user fees and charges (*business-type activities*). Warren County's governmental activities include general government, protection to persons and property, roads, recreation, social services, airport, debt service, capital projects, and administration. Warren County has one business type activity - Jail Canteen.

The government-wide financial statements should include not only Warren County itself (known as the primary government), but also legally separate entities, which have a significant operational or financial relationship with the County. Warren County has three such entities described as major Discretely Presented Component Units, they are:

Southern Kentucky Performing Arts Center, Incorporated
Inter-Modal Transportation Authority, Incorporated
South Central Kentucky Regional Development Authority

However, the financial statements only include the financial data of the Inter-Modal Transportation Authority, Inc. and do not include the financial data of the Southern Kentucky Performing Arts Center, Inc. and the South Central Kentucky Regional Development Authority.

Fund Financial Statements. A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. Warren County, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of Warren County can be divided into three broad categories: *governmental, proprietary, and fiduciary*.

Governmental Funds. Governmental funds are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on current inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's current financing requirements.

Because of focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's current financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

Warren County maintains (11) eleven individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances.

Major Funds:

- General Fund
- Road and Bridge Fund
- Jail Fund
- County Bond Sinking Fund

Non-major Funds:

- Local Government Economic Assistance Fund
- Park Enterprise Fund
- Emergency 9-1-1 Fund
- Federal Drug Forfeiture Fund
- General Obligation Bond Fund
- Regional Jail Corporation Fund
- Justice Center Expansion Corporation Fund

Warren County adopts an annual appropriated budget. A budgetary comparison statement has been provided for the General Fund, Road and Bridge Fund, and Jail Fund to demonstrate compliance with their budgets.

Proprietary Funds. Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the Jail Canteen Fund.

Fiduciary Funds Financial Statements. These funds are used to account for resources held for custodial purposes. Fiduciary funds are not reflected in the government-wide financial statements because the resources of these funds are not available to support the programs of the County. The accounting used for fiduciary funds is much like that used for proprietary funds. The County's fiduciary funds are the Utility Tax Fund and Jail Inmate Fund.

Component Units Financial Statements. As mentioned above, Component Units are operations for which the County has some financial accountability, but also have certain independent qualities as well. Component Units operate similarly to private sector businesses. The government-wide financial statements present information for one component unit, the Inter-Modal Transportation Authority, within a single column of the statement of net assets. Also, information on the statement of activities presents this component unit. The government-wide financial statements do not include the financial data of the Southern Kentucky Performing Arts Center, Inc. and the South Central Kentucky Regional Development Authority.

Notes to the Financial Statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

Net Assets. As noted earlier, net assets may serve over time as a useful indicator of a government's financial position.

Table 1
Warren County's Net Assets

	Governmental Activities		Business-type Activities		Total	
	2004	2005	2004	2005	2004	2005
Assets						
Current and other assets	\$ 6,767,192	\$ 4,389,906	\$ 195,251	\$ 246,609	\$ 6,962,443	\$ 4,636,515
Net Capital Assets	89,019,052	86,648,055	5,977	20,751	89,025,029	86,668,806
Total Assets	95,786,244	91,037,961	201,228	267,360	95,987,472	91,305,321
Liabilities						
Current and other Liabilities	1,436,052	1,566,983			1,436,052	1,566,983
Long-term Liabilities	49,302,754	47,771,000			49,302,754	47,771,000
Total Liabilities	50,738,806	49,337,983			50,738,806	49,337,983
Net Assets						
Invested in Capital Assets, Net of Related Debt	38,280,246	37,310,072	5,977	20,751	38,286,223	37,330,823
Restricted	1,797,539	1,113,480			1,797,539	1,113,480
Unrestricted	4,969,653	3,276,426	195,251	246,609	5,164,904	3,523,035
Total Net Assets	\$45,047,438	\$41,699,978	\$ 201,228	\$ 267,360	\$45,248,666	\$41,967,338

Changes in Net Assets.

Table 2
Warren County's Changes in Net Assets

Changes In Net Assets

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total</u>	
	<u>2004</u>	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>	<u>2005</u>
Program Revenues						
Charges for						
Services	\$ 5,459,647	\$ 5,148,381	\$ 308,759	\$ 1,103,632	\$ 5,768,406	\$ 6,252,013
Grants &						
Contributions	7,744,027	9,862,843			7,744,027	9,862,843
General Revenues						
Taxes	7,986,172	8,653,001			7,986,172	8,653,001
Miscellaneous						
& Other	1,872,208	1,712,734	642	22,398	1,872,850	1,735,132
Net Cash						
Transfers		320,686		(320,686)		
Total Revenue	<u>23,062,054</u>	<u>25,697,645</u>	<u>309,401</u>	<u>805,344</u>	<u>23,371,455</u>	<u>26,502,989</u>
Expenses						
General						
Government	6,988,197	8,077,737			6,988,197	8,077,737
Protection to						
Persons &						
Property	5,836,007	7,105,800			5,836,007	7,105,800
General Health						
and Sanitation	1,639,762	1,573,842			1,639,762	1,573,842
Social Services	512,805	386,690			512,805	386,690
Recreation and						
Culture	1,974,140	2,537,732			1,974,140	2,537,732
Roads	4,752,786	4,214,790			4,752,786	4,214,790
Airports	140,392	147,675			140,392	147,675
Road Facilities	3,213	6,046			3,213	6,046
Debt Service	2,652,217	2,724,605			2,652,217	2,724,605
Capital Projects	1,738,959	2,270,189			1,738,959	2,270,189
Jail Canteen			228,076	739,212	228,076	739,212
Total Expenses	<u>26,238,478</u>	<u>29,045,106</u>	<u>228,076</u>	<u>739,212</u>	<u>26,466,554</u>	<u>29,784,318</u>
Change In Net						
Assets	(3,176,424)	(3,347,461)	81,325	66,132	(3,095,099)	(3,281,329)
Net Assets -						
Beginning	<u>48,223,862</u>	<u>45,047,439</u>	<u>119,903</u>	<u>201,228</u>	<u>48,343,765</u>	<u>45,248,667</u>
Net Assets -						
Ending	<u>\$45,047,438</u>	<u>\$41,699,978</u>	<u>\$ 201,228</u>	<u>\$ 267,360</u>	<u>\$45,248,666</u>	<u>\$41,967,338</u>

Changes in Net Assets. (Continued)

Governmental Activities. Warren County's net assets decreased by \$3,347,461 during the fiscal year ended June 30, 2005. Key elements of this are as follows:

- Current assets and cash decreased \$2,377,286, due to increased deficits in the Jail and Sheriff's budget and expenses covered by grants from the State of Kentucky not reimbursed until after June 30, 2005.
- Investment in capital assets and infrastructure, net of related debt decreased \$970,174 primarily due to depreciation expense.
- Current and long-term liabilities decreased by \$1,400,823, due to the refinancing of the Public Projects Revenue Project, Series 1996 bonds and principal payments made during the year.

Business-type Activities. Warren County's net assets increased by \$66,132 during the fiscal year ended June 30, 2005. Key elements are as follows:

- Current assets and cash increased by \$51,358.
- Investment in capital increased by \$14,774 due to the purchase of vehicles.

Financial Analysis of the County's Funds. As noted earlier, Warren County uses fund accounting to ensure and demonstrate compliance with finance-related requirements.

Governmental Funds Overview. The focus of Warren County governmental funds is to provide information on current inflows, outflows, and balances of spendable resources. Such information is useful in assessing the County's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of June 2005 fiscal year, the combined ending fund balances of County governmental funds were \$4,389,906, which consists of unreserved fund balance, which is available as working capital and for current spending in accordance with the purposes of the specific funds.

The County has (4) four major governmental, and (7) non-major funds.

Major Funds

- General Fund
- Road and Bridge Fund
- Jail Fund
- County Bond Sinking Fund

Non-major Funds

- Local Government Economic Assistance Fund
- Park Enterprise Fund
- Emergency 9-1-1 Fund
- Federal Drug Forfeiture Fund
- General Obligation Bond Fund
- Regional Jail Corporation
- Justice Center Expansion Corporation

Financial Analysis of the County's Funds. (Continued)

Governmental Funds Overview. (Continued)

1. The General Fund is the chief operating fund of Warren County. At the end of the June 30, 2005 fiscal year, unreserved fund balance of the General Fund was \$2,890,025, which was the total fund balance. The County received \$8,285,514 in real and personal property, motor vehicle, and other taxes for approximately 63% of the county's general revenues. Various other service fees and miscellaneous revenues contribute to the remaining 37% of revenues.
2. The Road and Bridge Fund is the fund related to County road and bridge construction and maintenance. The Road and Bridge Fund had a \$113,882 fund balance at June 30, 2005. The fiscal year 2005 expenditures for Road and Bridge Fund were \$3,625,062.
3. The Jail Fund is used to account for the operation of the County's detention program. The Jail Fund had a balance at June 30, 2005 of \$78,938. The Jail Fund received \$4,040,308 for intergovernmental fees, primarily for housing prisoners. The General Fund contributed \$1,150,000 to the jail operations.
4. The County Bond Sinking Fund had a fund balance of \$994,508 as of June 30, 2005, for the construction of the new regional parks and courthouse renovations. These funds are restricted for parks construction and courthouse renovations.
5. The Local Government Economic Assistance Fund had a fund balance of \$(1,998) as of June 30, 2005, a decrease of \$49,437 over the previous fiscal year end.
6. The Park Enterprise Fund had a fund balance of \$143,731 as of June 30, 2005.
7. The Emergency 9-1-1 Fund accounts for the operation of the City/County emergency operations communications. The Fund had a fund balance of \$37,791 at the end of June 30, 2005 fiscal year. Tax revenue from telephone and cell phones for the fiscal year was \$366,946. These funds are used to retire bonds and the operations of 9-1-1.
8. The Federal Drug Forfeiture Fund had a fund balance of \$14,057 as of June 30, 2005. The funds are restricted, and can only be used as directed by approved budgeted appropriation.
9. The General Obligation Bond Fund had a balance of \$809 as of June 30, 2005. This is an increase of \$350 from June 30, 2004. These funds are restricted for debt reduction.
10. The Regional Jail Corporation as of June 30, 2005, had a fund balance of \$0.
11. The Justice Center Expansion Corporation had a fund balance of \$118,163 as of June 30, 2005. These funds are restricted for debt reduction.

Financial Analysis of the County's Funds. (Continued)

Proprietary Funds Overview. The County's proprietary fund statements provide the same type of information found in the government-wide statements, but in more detail.

Warren County has (1) one enterprise-type proprietary fund, it is:

- Jail Canteen Fund

The Jail Canteen Fund's unrestricted net assets as of June 30, 2005, amounted to \$246,609 and total net assets were \$267,360.

General Fund Budgetary Highlights. Warren County's general fund budget was amended during the fiscal year increasing the budgeted amount by \$1,818,431. Budget amendments were made to various expenditures due to grants awarded in the fiscal year, surplus cash carried forward, and an increase in actual tax revenue.

Actual revenues of the General Fund were \$2,309,126 short of the budget. This variance was due to Intergovernmental Revenue and Interest Income. Expenditures on some grants were not reimbursed until after the end of the fiscal year, and the interest on investments remains depressed.

Capital Assets and Debt Administration.

Capital Assets. Warren County's investment in capital assets for its government and business type activities as of June 30, 2005, amount to \$86,668,806 (net of accumulated depreciation). This investment in capital assets includes land, buildings, improvements to land other than buildings, machinery and equipment, vehicles, and infrastructure. Warren County has elected to report infrastructure assets in accordance with the provisions of GASB 34.

Major capital asset events during the fiscal year ended June 30, 2005 included the purchase of vehicles for the Sheriff's office and purchase of vehicles and equipment for Homeland Security.

Capital Assets and Debt Administration. (Continued)

Additional information of the County's capital assets can be found in Note 5 of this report.

Table 3
Warren County's Capital Assets, Net of Accumulated Depreciation

	Governmental Activities		Business-type Activities		Total	
	2004	2005	2004	2005	2004	2005
Assets						
Infrastructure						
Assets	\$ 34,226,825	\$ 31,816,333	\$	\$	\$ 34,226,825	\$ 31,816,333
Land	4,689,684	6,939,281			4,689,684	6,939,281
Construction						
In Progress	11,209,678				11,209,678	
Buildings	35,739,900	42,024,369			35,739,900	42,024,369
Other						
Equipment	666,517	805,855			666,517	805,855
Land						
Improvements	28,990	2,417,923			28,990	2,417,923
Vehicles &						
Equip.	2,457,458	2,644,294	5,977	20,751	2,463,435	2,665,045
Total Net						
Capital Assets	<u>\$ 89,019,052</u>	<u>\$ 86,648,055</u>	<u>\$ 5,977</u>	<u>\$ 20,751</u>	<u>\$ 89,025,029</u>	<u>\$ 86,668,806</u>

Long-Term Debt. At the end of the fiscal year ended June 30, 2005, Warren County had total bonded debt outstanding of \$48,865,000. The totals are as follows: General Obligation Bonds \$23,895,000; Lease Revenue Bonds \$115,000; and First Mortgage Revenue Bonds \$24,855,000. The County has (3) three financing obligations totaling \$472,983.

Other Matters. The following factors are expected to have a significant effect on the County's financial position or results of operations and were taken into account in developing the budget for the fiscal year ending June 30, 2005:

- Economic factors indicate continued growth for Warren County. As reported by the Commonwealth of Kentucky, 2005 new property was valued in the amount of \$199 million. The Kentucky General Assembly appropriated \$5.2 million for various projects in Warren County. New housing, expansion of existing business, and the development of new business remain strong for Bowling Green and Warren County. Development in the Inter-Modal Transportation Park and the recruitment of new industry is progressing in accordance with anticipated goals. The unemployment rate continues to be one of the lowest in the state.

Requests For Information. This financial report is designed to provide a general overview of Warren County's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this or requests for additional financial information should be addressed to the Warren County Treasurer, 429 East 10th Street, Second Floor, Bowling Green, KY 42101.

Questions concerning the audit report of the Inter-Modal Transportation Authority, Inc. should be addressed to Warren County Treasurer, 429 East 10th Street, Second Floor, Bowling Green, KY 42101.

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WARREN COUNTY
STATEMENT OF NET ASSETS - MODIFIED CASH BASIS

June 30, 2005

WARREN COUNTY
STATEMENT OF NET ASSETS - MODIFIED CASH BASIS

June 30, 2005

	Primary Government			Component Unit
	Governmental Activities	Business-Type Activities	Totals	Inter-Modal Transportation Authority, Inc.
ASSETS				
Current Assets:				
Cash and Cash Equivalents -				
Unrestricted	\$ 4,289,906	\$ 246,609	\$ 4,536,515	\$ 827,774
Restricted for Revenue Bond and Revenue and Bond Anticipation Notes Trustee Accounts				1,708,855
Investments	100,000		100,000	
Receivables:				
Rent				3,562
Taxes				115,710
Prepaid Items				12,928
Rental Deposits (Restricted)				2,775
Total Current Assets	4,389,906	246,609	4,636,515	2,671,604
Noncurrent Assets:				
Cash and Cash Equivalents -				
Restricted for Revenue Bond and Revenue and Bond Anticipation Notes Trustee Accounts				3,367,951
Land Held For Development				23,151,323
Debt Issuance Costs				203,081
Capital Assets -				
Land and Land Improvements	6,939,281		6,939,281	146,279
Buildings and Building Improvements	45,655,777		45,655,777	385,942
Other Equipment	1,311,665		1,311,665	31,218
Land Improvements	2,503,441		2,503,441	
Vehicles and Equipment	5,544,785	80,758	5,625,543	64,248
Web-Site Development Costs				17,260
Infrastructure Assets	104,900,348		104,900,348	
Less: Accumulated Depreciation	(80,207,242)	(60,007)	(80,267,249)	(79,025)
Total Capital Assets - Net of Accumulated Depreciation	86,648,055	20,751	86,668,806	565,922
Total Noncurrent Assets	86,648,055	20,751	86,668,806	27,288,277
Total Assets	91,037,961	267,360	91,305,321	29,959,881

The accompanying notes are an integral part of the financial statements.

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WARREN COUNTY
STATEMENT OF NET ASSETS - MODIFIED CASH BASIS
June 30, 2005
(Continued)

	Primary Government			Component Unit
	Governmental Activities	Business-Type Activities	Totals	Inter-Modal Transportation Authority, Inc.
LIABILITIES				
Current Liabilities:				
General Obligation Bonds Payable	\$ 820,000	\$	\$ 820,000	\$
Revenue Bonds Payable	615,000		615,000	
Financing Obligations Payable	131,983		131,983	
Accounts Payable and				
Contracts Payable				804,333
Retainage Payable				740,371
Accrued Interest Payable				295,359
Rental Deposits				2,775
Total Current Liabilities	<u>1,566,983</u>	<u></u>	<u>1,566,983</u>	<u>1,842,838</u>
Noncurrent Liabilities:				
General Obligation Bonds Payable	23,075,000		23,075,000	
Revenue Bonds Payable	24,355,000		24,355,000	
Financing Obligations Payable	341,000		341,000	
Revenue Bonds Payable				
(Net of Unamortized Discounts)				19,920,461
Revenue and Bond Anticipation Notes				
Payable (Net of Unamortized				
Deferred Amount On Refunding)				4,675,575
Total Noncurrent Liabilities	<u>47,771,000</u>	<u></u>	<u>47,771,000</u>	<u>24,596,036</u>
Total Liabilities	<u>49,337,983</u>	<u></u>	<u>49,337,983</u>	<u>26,438,874</u>
NET ASSETS				
Invested in Capital Assets,				
Net of Related Debt	37,310,072	20,751	37,330,823	565,922
Restricted For:				
Capital Projects	994,508		994,508	
Debt Service	118,972		118,972	
Unrestricted	3,276,426	246,609	3,523,035	2,955,085
Total Net Assets	<u>\$ 41,699,978</u>	<u>\$ 267,360</u>	<u>\$ 41,967,338</u>	<u>\$ 3,521,007</u>

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WARREN COUNTY
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS
For The Year Ended June 30, 2005

WARREN COUNTY
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS

For The Year Ended June 30, 2005

		Program Revenues Received		
Functions/Programs Reporting Entity	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary Government:				
Governmental Activities:				
General Government	\$ 8,077,737	\$ 1,092,743	\$ 3,275,520	\$
Protection to Persons and Property	7,105,800	3,933,270	1,248,577	
General Health and Sanitation	1,573,842		169,660	
Social Services	386,690			
Recreation and Culture	2,537,732	122,368	23,630	
Roads	4,214,790		3,217,124	
Airports	147,675			
Road Facilities	6,046			
Debt Service	2,724,605		1,928,332	
Capital Projects	2,270,189			
Total Governmental Activities	29,045,106	5,148,381	9,862,843	
Business-type Activities:				
Jail Canteen	739,212	1,103,632		
Total Business-type Activities	739,212	1,103,632		
Total Primary Government	\$ 29,784,318	\$ 6,252,013	\$ 9,862,843	\$
Component Unit:				
Inter-Modal Transportation Authority, Inc.	\$ 772,687	\$ 54,851	\$ 1,200,000	\$
Total Component Unit	\$ 772,687	\$ 54,851	\$ 1,200,000	\$

General Revenues:

Taxes:

Real and Personal Property Taxes

Motor Vehicle Taxes

Other Taxes

County Wage Assessment Tax

Excess Fees

Insurance Reimbursement

Miscellaneous Revenues

Unrestricted Investment Earnings

Gain on Disposal Of Equipment

Vehicle Transfers

Net Cash Transfers

Total General Revenues and Transfers

Change in Net Assets

Net Assets - Beginning (Restated)

Net Assets - Ending

The accompanying notes are an integral part of the financial statements.

WARREN COUNTY
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS
For The Year Ended June 30, 2005
(Continued)

Net (Expenses) Revenues and Changes in Net Assets			
Primary Government			Component Unit
Governmental Activities	Business-Type Activities	Totals	Inter-Modal Transportation Authority, Inc.
\$ (3,709,474)	\$	\$ (3,709,474)	\$
(1,923,953)		(1,923,953)	
(1,404,182)		(1,404,182)	
(386,690)		(386,690)	
(2,391,734)		(2,391,734)	
(997,666)		(997,666)	
(147,675)		(147,675)	
(6,046)		(6,046)	
(796,273)		(796,273)	
(2,270,189)		(2,270,189)	
(14,033,882)		(14,033,882)	
	364,420	364,420	
	364,420	364,420	
(14,033,882)	364,420	(13,669,462)	
			482,164
			482,164
6,702,145		6,702,145	
766,566		766,566	
1,184,290		1,184,290	
			149,874
901,079		901,079	
231,667		231,667	
477,287		477,287	235
88,222	1,118	89,340	101,819
1,844		1,844	
12,635	21,280	33,915	
320,686	(320,686)		
10,686,421	(298,288)	10,388,133	251,928
(3,347,461)	66,132	(3,281,329)	734,092
45,047,439	201,228	45,248,667	2,786,915
\$ 41,699,978	\$ 267,360	\$ 41,967,338	\$ 3,521,007

The accompanying notes are an integral part of the financial statements.

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WARREN COUNTY
BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

June 30, 2005

WARREN COUNTY
BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

June 30, 2005

	General Fund	Road And Bridge Fund	Jail Fund	County Bond Sinking Fund
ASSETS				
Cash and Cash Equivalents	\$ 2,790,025	\$ 113,882	\$ 78,938	\$ 994,508
Investments	100,000			
Total Assets	<u>\$ 2,890,025</u>	<u>\$ 113,882</u>	<u>\$ 78,938</u>	<u>\$ 994,508</u>
FUND BALANCES				
Fund Balances:				
Unreserved:				
General Fund	\$ 2,890,025	\$	\$	\$
Special Revenue Funds		113,882	78,938	
Capital Projects Fund				994,508
Debt Service Funds				
Total Fund Balances	<u>\$ 2,890,025</u>	<u>\$ 113,882</u>	<u>\$ 78,938</u>	<u>\$ 994,508</u>

The accompanying notes are an integral part of the financial statements.

WARREN COUNTY
BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
June 30, 2005
(Continued)

Non- Major Governmental Funds	Total Governmental Funds
\$ 312,553	\$ 4,289,906
	100,000
<u>\$ 312,553</u>	<u>\$ 4,389,906</u>

\$	\$ 2,890,025
193,581	386,401
	994,508
<u>118,972</u>	<u>118,972</u>
<u>\$ 312,553</u>	<u>\$ 4,389,906</u>

Reconciliation of the Balance Sheet - Governmental Funds to Statement of Net Assets:

Total Fund Balances	\$ 4,389,906
Amounts Reported For Governmental Activities In The Statement Of Net Assets Are Different Because:	
Capital Assets Used in Governmental Activities Are Not Financial Resources And Therefore Are Not Reported in the Governmental Funds	166,855,297
Accumulated Depreciation	(80,207,242)
Long-term Debt Is Not Due and Payable In The Current Period and, Therefore, Is Not Reported in the Governmental Funds:	
General Obligation Bonds Principal	(23,895,000)
Revenue Bonds Principal	(24,970,000)
Financing Obligations Principal	<u>(472,983)</u>
Net Assets Of Governmental Activities	<u>\$ 41,699,978</u>

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WARREN COUNTY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

For The Year Ended June 30, 2005

WARREN COUNTY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

For The Year Ended June 30, 2005

	General Fund	Road And Bridge Fund	Jail Fund	County Bond Sinking Fund
REVENUES				
Taxes	\$ 8,157,911	\$	\$	\$
In Lieu Tax Payments	127,603			
Excess Fees	901,079			
Licenses and Permits	1,024,008			
Intergovernmental	2,338,246	2,288,153	4,040,308	
Charges for Services	177,325		135,577	
Miscellaneous	401,253	708,794	362,135	
Interest	61,340	996	1,850	16,000
Total Revenues	<u>13,188,765</u>	<u>2,997,943</u>	<u>4,539,870</u>	<u>16,000</u>
EXPENDITURES				
General Government	5,059,017			
Protection to Persons and Property	1,586,543		4,366,916	
General Health and Sanitation	1,570,543			
Social Services	336,690			
Recreation and Culture	2,631,075			
Roads		1,257,504		
Airports	147,675			
Road Facilities		6,046		
Debt Service	535,941		2,000	115,188
Capital Projects	69,391	2,117,114		83,684
Administration	937,873	244,398	782,454	
Total Expenditures	<u>12,874,748</u>	<u>3,625,062</u>	<u>5,151,370</u>	<u>198,872</u>
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>314,017</u>	<u>(627,119)</u>	<u>(611,500)</u>	<u>(182,872)</u>
Other Financing Sources (Uses)				
Issuance Of Refunding Bonds				
Payment To Refunded Bond Escrow Agent				
Issuance Of Financing Obligation	230,000			
Transfers From Other Funds	400,000	775,000	1,476,011	105,267
Transfers To Other Funds	(2,473,443)	(200,000)	(910,641)	
Total Other Financing Sources (Uses)	<u>(1,843,443)</u>	<u>575,000</u>	<u>565,370</u>	<u>105,267</u>
Net Change in Fund Balances	(1,529,426)	(52,119)	(46,130)	(77,605)
Fund Balances - Beginning	4,419,451	166,001	125,068	1,072,113
Fund Balances - Ending	<u>\$ 2,890,025</u>	<u>\$ 113,882</u>	<u>\$ 78,938</u>	<u>\$ 994,508</u>

The accompanying notes are an integral part of the financial statements.

WARREN COUNTY
STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
For The Year Ended June 30, 2005
(Continued)

Non- Major Governmental Funds	Total Governmental Funds
\$ 366,946	\$ 8,524,857
	127,603
	901,079
	1,024,008
4,234,438	12,901,145
	312,902
10,481	1,482,663
8,037	88,223
<u>4,619,902</u>	<u>25,362,480</u>
1,940,000	6,999,017
448,673	6,402,132
	1,570,543
50,000	386,690
27	2,631,102
310,850	1,568,354
	147,675
	6,046
3,346,900	4,000,029
	2,270,189
75	1,964,800
<u>6,096,525</u>	<u>27,946,577</u>
<u>(1,476,623)</u>	<u>(2,584,097)</u>
2,620,000	2,620,000
(2,963,875)	(2,963,875)
	230,000
1,820,181	4,576,459
(671,689)	(4,255,773)
<u>804,617</u>	<u>206,811</u>
(672,006)	(2,377,286)
984,559	6,767,192
<u>\$ 312,553</u>	<u>\$ 4,389,906</u>

The accompanying notes are an integral part of the financial statements.

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**WARREN COUNTY
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS**

For The Year Ended June 30, 2005

WARREN COUNTY
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS

For The Year Ended June 30, 2005

Net Change in Fund Balances - Total Governmental Funds \$ (2,377,286)

Amounts Reported for Governmental Activities In The Statement of
Activities Are Different Because:

Governmental Funds Report Capital Outlays as Expenditures. However, In The
Statement of Activities the Cost of Those Assets is Allocated Over Their
Estimated Useful Lives and Reported as Depreciation Expense.

Capital Outlay	2,025,720
Depreciation Expense	(4,405,724)
Book Value - Traded/Disposed/Transferred Capital Assets	(7,511)
Amount Received On Trade-In Of Equipment	3,882
Vehicle Transferred From Business-Type Activities	12,635

The Issuance of Long-term Debt (e.g. Bonds, Leases) Provides Current
Financial Resources to Governmental Funds, While Repayment of Principal
On Long-term Debt Consumes the Current Financial Resources of Governmental
Funds. These Transactions, However, Have No Effect On Net Assets.

Bond Issuance Proceeds	(2,620,000)
Financing Obligation Proceeds	(230,000)
Financing Obligations Principal Payments	150,823
Bonded Debt Principal Payments	<u>4,100,000</u>

Change in Net Assets of Governmental Activities \$ (3,347,461)

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WARREN COUNTY
STATEMENT OF NET ASSETS - PROPRIETARY FUND - MODIFIED CASH BASIS

June 30, 2005

WARREN COUNTY
STATEMENT OF NET ASSETS - PROPRIETARY FUND - MODIFIED CASH BASIS

June 30, 2005

	<u>Business-Type Activities</u>
	<u>Enterprise Fund</u>
	<u>Jail Canteen Fund</u>
Assets	
Current Assets:	
Cash and Cash Equivalents	\$ 246,609
Total Current Assets	<u>246,609</u>
Noncurrent Assets:	
Capital Assets:	
Vehicles and Equipment	80,758
Less Accumulated Depreciation	<u>(60,007)</u>
Total Noncurrent Assets	<u>20,751</u>
Total Assets	<u>267,360</u>
Fund Net Assets	
Invested in Capital Assets	20,751
Unrestricted	<u>246,609</u>
Total Fund Net Assets	<u><u>\$ 267,360</u></u>

The accompanying notes are an integral part of the financial statements.

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WARREN COUNTY
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS -
PROPRIETARY FUND - MODIFIED CASH BASIS

For The Year Ended June 30, 2005

WARREN COUNTY
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS -
PROPRIETARY FUND - MODIFIED CASH BASIS

For The Year Ended June 30, 2005

	<u>Business-Type Activities</u>
	<u>Enterprise Fund</u>
	<u>Jail Canteen Fund</u>
Operating Revenues	
Canteen Receipts	\$ 1,103,632
Total Operating Revenues	<u>1,103,632</u>
Operating Expenses	
Cost of Sales	462,791
Educational and Recreational	77,350
Depreciation	28,138
Miscellaneous	369
Total Operating Expenses	<u>568,648</u>
Operating Income	<u>534,984</u>
Nonoperating Revenues (Expenses)	
Interest Income	1,118
Loss On Vehicle Transferred To	
Governmental Activities	(500)
Inmate Refunds	(170,064)
Net Nonoperating Revenues (Expenses)	<u>(169,446)</u>
Net Income Before Transfers	<u>365,538</u>
Interfund Transfers - Warren County Fiscal Court:	
Net Cash Transfers	(320,686)
Vehicle Transferred From	
Governmental Activities	21,280
Total Interfund Transfers	<u>(299,406)</u>
Change In Fund Net Assets	66,132
Total Fund Net Assets - Beginning (Restated)	<u>201,228</u>
Total Fund Net Assets - Ending	<u><u>\$ 267,360</u></u>

The accompanying notes are an integral part of the financial statements.

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WARREN COUNTY
STATEMENT OF CASH FLOWS - PROPRIETARY FUND - MODIFIED CASH BASIS

For The Year Ended June 30, 2005

WARREN COUNTY
STATEMENT OF CASH FLOWS - PROPRIETARY FUND - MODIFIED CASH BASIS

For The Year Ended June 30, 2005

	<u>Business-Type Activities</u>
	<u>Enterprise Fund</u>
	<u>Jail Canteen Fund</u>
Cash Flows From Operating Activities	
Receipts From Customers	\$ 1,100,925
Cost of Sales	(462,791)
Educational and Recreational	(77,350)
Reimbursements	2,707
Miscellaneous	(369)
Net Cash Provided By Operating Activities	<u>563,122</u>
Cash Flows From Noncapital Financing Activities:	
Inmate Refunds on Accounts	(170,064)
Interfund Transfers From	
Warren County Fiscal Court	5,325
Interfund Transfers To	
Warren County Fiscal Court	(326,011)
Net Cash Used By Noncapital Financing Activities	<u>(490,750)</u>
Cash Flows From Capital and Related Financing Activities	
Purchase of Vehicles	(22,132)
Net Cash Used By Capital and Related Financing Activities	<u>(22,132)</u>
Cash Flows From Investing Activities	
Interest Earned	1,118
Net Cash Provided By Investing Activities	<u>1,118</u>
Net Increase in Cash and Cash Equivalents	51,358
Cash and Cash Equivalents - July 1 (Restated)	<u>195,251</u>
Cash and Cash Equivalents - June 30	<u><u>\$ 246,609</u></u>
Reconciliation of Operating Income to Net Cash	
<u>Net Cash Provided by Operating Activities</u>	
Operating Income	\$ 534,984
Adjustments to Reconcile Operating Income To	
Net Cash Provided By Operating Activities:	
Depreciation Expense	<u>28,138</u>
Total Cash Provided By Operating Activities	<u><u>\$ 563,122</u></u>

The accompanying notes are an integral part of the financial statements.

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WARREN COUNTY
STATEMENT OF FIDUCIARY NET ASSETS - FIDUCIARY FUNDS - MODIFIED CASH BASIS

June 30, 2005

WARREN COUNTY
STATEMENT OF FIDUCIARY NET ASSETS - FIDUCIARY FUNDS - MODIFIED CASH BASIS

June 30, 2005

	<u>Agency Funds</u>	
	<u>Utility Tax Fund</u>	<u>Jail Inmate Fund</u>
Assets		
Current Assets:		
Cash and Cash Equivalents	\$ 466,901	\$ 5,281
Total Assets	<u>\$ 466,901</u>	<u>\$ 5,281</u>
Liabilities		
Amounts Held In Custody For Others	\$ 466,901	\$ 5,281
Total Liabilities	<u>\$ 466,901</u>	<u>\$ 5,281</u>

The accompanying notes are an integral part of the financial statements.

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**INDEX FOR NOTES
TO THE FINANCIAL STATEMENTS**

NOTE 1.	SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES	54
NOTE 2.	DEPOSITS AND INVESTMENTS.....	63
NOTE 3.	RESTRICTED ASSETS - INTER-MODAL TRANSPORTATION AUTHORITY, INC.....	65
NOTE 4.	CAPITAL ASSETS	66
NOTE 5.	INTERFUND TRANSACTIONS	69
NOTE 6.	LONG-TERM DEBT	69
NOTE 7.	INTEREST ON LONG-TERM DEBT AND FINANCING OBLIGATIONS	79
NOTE 8.	PROJECT FINANCING - INTER-MODAL TRANSPORTATION AUTHORITY, INC.....	79
NOTE 9.	RELATED PARTY TRANSACTIONS.....	80
NOTE 10.	COMMITMENTS AND CONTINGENCIES.....	82
NOTE 11.	EMPLOYEE RETIREMENT SYSTEM	84
NOTE 12.	DEFERRED COMPENSATION.....	85
NOTE 13.	INSURANCE.....	85
NOTE 14.	SUBSEQUENT EVENTS	85
NOTE 15.	PRIOR PERIOD ADJUSTMENTS	86
NOTE 16.	ESTIMATED INFRASTRUCTURE HISTORICAL COST	87

WARREN COUNTY
NOTES TO FINANCIAL STATEMENTS

June 30, 2005

Note 1. Summary of Significant Accounting Policies

A. Basis of Presentation

The management of Warren County Fiscal Court presents its government-wide and fund financial statements utilizing a modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this basis of accounting, assets, liabilities, and related revenues and expenditures are recorded when they result from cash transactions, with a few exceptions. This modified cash basis recognizes revenues when received and expenditures when paid. Receivables are recognized on the Statement of Net Assets, but receivables are not included and recognized on Balance Sheet - Governmental Funds. Property tax receivables, accounts payable, compensated absences, and donated assets, among other items, are not reflected in the financial statements. Encumbrances lapse at year-end and are not reflected on the Statement of Net Assets and Statement of Activities; however encumbrances are reflected on the Balance Sheet - Governmental Funds as part of the fund balance (Reserved for Encumbrances). The State Local Finance Officer does not require the county to report capital assets and infrastructure; however the value of these assets are included in the Statement of Net Assets and their corresponding depreciation expense is included on the Statement of Activities.

Management of the Inter-Modal Transportation Authority, Inc., a discretely presented component unit of the Warren County Fiscal Court, presents its government-wide and fund financial statements utilizing the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. The discretely presented component unit has adopted the accrual basis of accounting, under which revenues are recognized when they are earned and expenses are recognized when incurred. The funds are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and liabilities are included on the Statement of Net Assets.

B. Reporting Entity

The financial statements of Warren County include the funds, agencies, boards, and entities for which the fiscal court is financially accountable. Financial accountability, as defined by Section 2100 of the Governmental Accounting Standards Board (GASB) Codification of Governmental Accounting and Financial Reporting Standards, as amended by GASB 14 and GASB 39, was determined on the basis of the government's ability to significantly influence operations, select the governing authority, participate in fiscal management and the scope of public service. Consequently, the reporting entity includes organizations that are legally separate from the primary government. Legally separate organizations are reported as component units if either the county is financially accountable or the organization's exclusion would cause the county's financial statements to be misleading or incomplete. Component units may be blended or discretely presented. Blended component units either provide their services exclusively or almost entirely to the primary government, or their governing bodies are substantively the same as the primary government. All other component units are discretely presented.

Audited financial statements for the Inter-Modal Transportation Authority, Inc., a discretely presented component unit of the Warren County Fiscal Court, may be requested by contacting the Warren County Treasurer, 429 East 10th Street, Second Floor, Bowling Green, KY 42101.

WARREN COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2005
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

B. Reporting Entity (Continued)

Blended Component Units

Warren County Regional Jail Corporation

The Warren County Fiscal Court appoints a voting majority of the Regional Jail Corporation's governing board and has the ability to impose its will on the governing board. In addition, the fiscal court is financially accountable and legally obligated for the debt of the Regional Jail Corporation. Financial information for the Warren County Regional Jail Corporation is blended within Warren County's financial statements.

Warren County Justice Center Expansion Corporation

Warren County Fiscal Court must approve issue of bonded debt for the Justice Center Expansion Corporation; therefore, the Justice Center Expansion Corporation is fiscally dependent. In addition, the fiscal court leases the justice center from the Justice Center Expansion Corporation for the amount of the bond payments. Financial information for the Warren County Justice Center Expansion Corporation is blended within Warren County's financial statements.

Discretely Presented Component Units

The financial data of the Inter-Modal Transportation Authority, Inc. is reported on the Statement of Net Assets and the Statement of Activities in a separate column that is labeled as "Component Unit" to emphasize this organization's separateness from the Fiscal Court's primary government. The financial statements do not include the financial data of the Southern Kentucky Performing Arts Center, Inc. and the South Central Kentucky Regional Development Authority.

Southern Kentucky Performing Arts Center, Inc.

The Southern Kentucky Performing Arts Center, Inc. (SKyPAC) was created under the provisions of KRS 273.161 through 273.390 and 58.180 for the purpose of performance of public, civic, and governmental activities in Warren County, Kentucky. SKyPAC acts as the agent and instrumentality and the constituted authority of Warren County in the acquisition and financing of public projects and public facilities which includes among other things, public buildings and educational facilities; and in conjunction with Western Kentucky University, to organize, study, develop, implement, acquire and finance public facilities for facilitating the construction and maintenance of a fine arts and educational facility. SKyPAC is governed by no less than 10 directors and no more than 25 directors of the board. All of SKyPAC's Board of Directors are appointed by the Warren County Judge/Executive subject to the approval of the Warren County Fiscal Court. SKyPAC can provide a financial benefit to or impose a financial burden on the Warren County Fiscal Court.

WARREN COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2005
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

B. Reporting Entity (Continued)

Discretely Presented Component Units (Continued)

Inter-Modal Transportation Authority, Inc.

The Inter-Modal Transportation Authority, Inc. (ITA) was incorporated by the Warren County Fiscal Court as a non-stock, non-profit corporation pursuant to KRS 273.161 through 273.390 and 58.180. The ITA's primary purpose is the design, promotion, and construction of a multi-modal commerce and distribution center and industrial park in the Warren County area. The ITA was created for the purpose of financing public projects on behalf of Warren County Fiscal Court. ITA is governed by a 24-member board of directors appointed by the Warren County Judge/Executive. The Fiscal Court exercises organizational control over the ITA and retains the authority to alter or change the structure, organization, programs, or activities of the ITA, including the power to terminate its existence. In the event the ITA is dissolved, title to and ownership of all of its properties shall vest in the Fiscal Court. The ITA may not issue bonds, notes, or other obligations without the approval of the Fiscal Court.

South Central Kentucky Regional Development Authority

The South Central Kentucky Regional Development Authority (RDA) was established by the Warren County Fiscal Court pursuant to KRS 154.50-301 through 154.50-346. The RDA was created and organized by the Fiscal Court as a non-profit, industrial development authority for the purpose of financing the acquisition of real estate, pending the issuance of revenue bonds by the Inter-Modal Transportation Authority, Inc. The RDA is governed by six members appointed by the Warren County Judge/Executive. The Fiscal Court exercises organizational control over the RDA and retains the authority to alter or change the structure, organization, programs, or activities of the RDA, including the power to terminate its existence.

C. Warren County Elected Officials

Kentucky law provides for election of the below officials from the geographic area constituting Warren County. Pursuant to state statute, these officials perform various services for the Commonwealth of Kentucky, its judicial courts, the fiscal court, various cities, and special districts within the county, and the board of education. In exercising these responsibilities, however, they are required to comply with state laws. Audits of their financial statements are issued separately and individually and can be obtained from their respective administrative offices.

- Circuit Court Clerk
- County Attorney
- Property Valuation Administrator
- County Clerk
- County Sheriff

WARREN COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2005
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

D. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the primary government and its non-fiduciary component units. For the most part, the effect of interfund activities has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on sales, fees, and charges for support. Business-type revenues come mostly from fees charged to external parties for goods or services. Fiduciary funds are not included in these financial statements due to the unavailability of fiduciary funds to aid in the support of government programs.

The statement of net assets presents the reporting entity's non-fiduciary assets and liabilities, the difference between the two being reported as net assets. Net assets are reported in three categories: 1) invested in capital assets, net of related debt - consisting of capital assets, net of accumulated depreciation and reduced by outstanding balances for debt related to the acquisition, construction, or improvement of those assets; 2) restricted net assets - resulting from constraints placed on net assets by creditors, grantors, contributors, and other external parties, including those constraints imposed by law through constitutional provisions or enabling legislation; 3) unrestricted net assets - those assets that do not meet the definition of restricted net assets or invested in capital assets.

The statement of activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include: 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function; 2) operating grants and contributions; and 3) capital grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Internally dedicated resources such as taxes and unrestricted state funds are reported as general revenues.

Funds are characterized as either major or non-major. Major funds are those funds whose assets, liabilities, revenues, or expenditures/expenses are at least ten percent of the corresponding total (assets, liabilities, etc.) for all funds or type (governmental or proprietary) and whose total assets, liabilities, revenues, or expenditures/expenses are a least five percent of the corresponding total for all governmental and enterprise funds combined. The fiscal court may also designate any fund as a major.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds. Major individual governmental funds and major enterprise funds are reported as separate columns in the financial statements.

Governmental Funds

The primary government reports the following major governmental funds:

General Fund - This is the primary operating fund of the Fiscal Court. It accounts for all financial resources of the general government, except where the Governor's Office for Local Development requires a separate fund or where management requires that a separate fund be used for some function.

WARREN COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2005
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

D. Government-wide and Fund Financial Statements (Continued)

Governmental Funds (Continued)

Road and Bridge Fund - This fund is for road and bridge construction and repair. The primary source of revenue for this fund is state payments for truck license distribution, municipal road aid, and transportation grants. The Governor's Office for Local Development requires the fiscal court to maintain these receipts and expenditures separately from the General Fund.

Jail Fund - The primary purpose of this fund is to account for the jail expenditures of the Fiscal Court. The primary sources of revenue for this fund are reimbursements from the state and federal government, payments from other counties for housing prisoners, and transfers from the General Fund. The Governor's Office for Local Development requires the Fiscal Court to maintain these receipts and expenditures separately from the General Fund.

County Bond Sinking Fund - The purpose of this fund is to account for funds received from a bond issuance. The funds may be used for completing major public parks development and courthouse renovations. This is a new fund for the fiscal year ended June 30, 2005.

The primary government also has the following non-major funds: Local Government Economic Assistance Fund, Park Enterprise Fund, Emergency 911 Fund, Federal Drug Forfeiture Fund, General Obligation Bond Fund, Regional Jail Corporation Fund, and Justice Center Expansion Corporation Fund.

In the prior year audit report, the Justice Center Expansion Corporation Fund was presented as a major fund based on management's decision and the GASB 34 reporting requirements described above. In the current year report, this fund did not meet the reporting requirements for major fund designation, and management did not elect to present the fund as major. It is included in the current year report as a non-major fund.

Special Revenue Funds:

The Road and Bridge Fund, Jail Fund, Local Government Economic Assistance Fund, Park Enterprise Fund, Emergency 911 Fund, and Federal Drug Forfeiture Fund are presented as special revenue funds. Special revenue funds are to account for the proceeds of specific revenue sources and expenditures that are legally restricted for specific purposes.

Capital Projects Fund:

The County Bond Sinking Fund is presented as a capital projects fund. Capital projects funds are to account for the financial resources to be used for the acquisition or construction of major capital facilities.

WARREN COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2005
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

D. Government-wide and Fund Financial Statements (Continued)

Debt Service Fund:

The General Obligation Bond Fund, Regional Jail Corporation Fund, and Justice Center Expansion Corporation Fund are presented as debt service funds. Debt service funds are to account for the accumulation of resources for, and the payment of general long-term debt principal and interest.

Generally and except as otherwise provided by law, property taxes are assessed as of January 1, levied (mailed) November 1, due at discount November 30, due at face value December 31, delinquent January 1 following the assessment, and subject to lien and sale the 3rd Saturday in April following the delinquency date.

Proprietary Funds

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with proprietary funds' principal ongoing operations. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses. The principal operating revenues of the county's enterprise fund are charges to customers for sales in the Jail Canteen Fund. Operating expenses for the enterprise fund include the cost of sales and services, administrative expenses, and depreciation on capital assets. The government has elected not to adopt Financial Accounting Standards Board (FASB) Statements or Interpretations issued after November 30, 1989, unless the Governmental Accounting Standards Board (GASB) specifically adopts such FASB Statements or Interpretations.

The primary government reports the following major proprietary fund:

Jail Canteen Fund - The canteen operations are authorized pursuant to KRS 441.135(1), which allows the jailer to sell snacks, sodas, and other items to inmates. The profits generated from the sale of those items are to be used for the benefit or recreation of the inmates. KRS 441.135(2) requires the jailer to maintain accounting records and report annually to the county treasurer the receipts and disbursements of the Jail Canteen Fund.

Fiduciary Funds

Fiduciary funds report only those resources held in a trust or custodial capacity for individuals, private organizations, or other governments. The county's agency fund is used to account for monies held by the county in the Utility Tax Fund and Jail Inmate Fund for custodial purposes only. Unlike other funds, the agency fund reports assets and liabilities only; therefore, it has no measurement focus.

The primary government reports the following fiduciary funds:

Utility Tax Fund - This fund accounts for funds received from utility companies and remitted to the local school boards.

Jail Inmate Fund - This fund accounts for funds received from jail inmates and remitted for jail canteen expenses, booking fees, or returned to the jail inmate.

WARREN COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2005
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

D. Government-wide and Fund Financial Statements (Continued)

Presentation of Component Units

Detailed presentation of the financial statements for the Inter-Modal Transportation Authority, Inc., a major discretely presented component unit of the Warren County Fiscal Court, are available from the separately issued financial statements of this component unit. The financial statements do not include the financial data of the Southern Kentucky Performing Arts Center, Inc. and the South Central Kentucky Regional Development Authority.

E. Deposits and Investments

The government's cash and cash equivalents are considered to be cash on hand, demand deposits, certificates of deposit, and short-term investments with original maturities of three months or less from the date of acquisition.

KRS 66.480 authorizes the county to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

F. Capital Assets

Capital assets, which include land, land improvements, buildings, furniture and office equipment, building improvements, machinery, equipment, and infrastructure assets (roads and bridges) that have a useful life of more than one reporting period based on the government's capitalization policy, are reported in the applicable governmental or business-type activities of the government-wide financial statements. Such assets are recorded at historical cost or estimated historical cost when purchased or constructed.

Cost of normal maintenance and repairs that do not add to the value of the asset or materially extend the asset's life are not capitalized. Land and Construction In Progress are not depreciated. Interest incurred during construction is not capitalized. Capital assets and infrastructure are depreciated using the straight-line method of depreciation over the estimated useful life of the asset.

	Capitalization Threshold	Useful Life (Years)
Land Improvements	\$ 25,000	10-60
Buildings and Building Improvements	\$ 50,000	10-75
Machinery and Equipment	\$ 5,000	3-25
Vehicles	\$ 5,000	3-25
Infrastructure	\$ 25,000	10-50

WARREN COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2005
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

G. Long-term Obligations

In the government-wide financial statements and proprietary funds in the fund financial statements, long term debt and other long-term obligations are reported as liabilities in the applicable financial statements. The principal amount of bonds, notes, and financing obligations are reported.

In the fund financial statements, governmental funds recognize bond interest, as well as bond issuance costs when received or when paid, during the current period. The principal amount of the debt and interest are reported as expenditures. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as expenditures. Debt proceeds are reported as other financing sources.

Interest costs of the Inter-Modal Transportation Authority, Inc., a discretely presented component unit of the Warren County Fiscal Court, are capitalized on debt where proceeds are used to finance land acquisition and development costs. Interest earned on proceeds of tax-exempt borrowing arrangements restricted to the acquisition of qualifying assets is offset against interest costs in determining the amount to be capitalized.

Bond and note issuance costs, bond discounts, and the difference between the requisition price and the net carrying value of refunded debt of the Inter-Modal Transportation Authority, Inc., a discretely presented component unit of the Warren County Fiscal Court, are capitalized and amortized over the terms of the respective bonds and notes using a method that approximates the effective interest method.

H. Fund Equity

In the fund financial statements, the difference between the assets and liabilities of governmental funds is reported as fund balance. Fund balance is divided into reserved and unreserved components, with unreserved considered available for new spending. Unreserved fund balances, may be divided into designated and undesignated portions. Designations represent fiscal court's intended use of the resources and should reflect actual plans approved by the fiscal court.

Governmental funds report reservations of fund balance for amounts that are legally restricted by outside parties for use for a specific purpose, long-term receivables, and encumbrances.

"Reserved for Encumbrances" are purchase orders that will be fulfilled in a subsequent fiscal period. Although the purchase order or contract creates a legal commitment, the fiscal court incurs no liability until performance has occurred on the part of the party with whom the fiscal court has entered into the arrangement. When a government intends to honor outstanding commitments in subsequent periods, such amounts are encumbered. Encumbrances lapse at year-end and are not reflected on the Statement of Net Assets and Statement of Activities; however, encumbrances are reflected on the Balance Sheet - Governmental Funds as part of the fund balance.

I. Use Of Estimates

The preparation of financial statements of the Inter-Modal Transportation Authority, Inc., a discretely presented component unit of Warren County Fiscal Court, in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements. Estimates also affect the reported revenues and expenses during the reported period. Actual results could differ from those estimates.

WARREN COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2005
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

J. Budgetary Information

Annual budgets are adopted on a cash basis of accounting and according to the laws of Kentucky as required by the State Local Finance Officer.

The County Judge/Executive is required to submit estimated receipts and proposed expenditures to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Expenditures may not exceed budgeted appropriations at the activity level.

K. Related Organizations, Joint Venture, and Jointly Governed Organizations

A related organization is an entity for which a primary government is not financially accountable. It does not impose will or have a financial benefit or burden relationship, even if the primary government appoints a voting majority of the related organization's governing board. The primary government's accountability for related organizations does not extend beyond making appointments. Based on these criteria, the following are considered related organizations of Warren County Fiscal Court: Animal Control Board, Codes Enforcement Board, Industrial Development Authority, and Warren County Water District.

A joint venture is a legal entity or other organization that results from a contractual agreement and that is owned, operated, or governed by two or more participants as a separate activity subject to joint control, in which the participants retain (a) an ongoing financial interest or (b) an ongoing financial responsibility. Based upon these criteria, the following is considered a joint venture of the Warren County Fiscal Court:

Joint City-County Planning Commission

The Warren County Fiscal Court has maintained an ongoing financial responsibility for the Joint City-County Planning Commission (Planning Commission). The Planning Commission is a joint venture between Fiscal Court and Cities of Bowling Green, Plum Springs, Smiths Grove, Woodburn, and Oakland to assist and promote the orderly development of the county and cities. The Fiscal Court and City of Bowling Green are each responsible for fifty percent of the basic administration included in the budget of the Planning Commission. During fiscal year 2005, the Fiscal Court contributed \$509,075 to the Planning Commission.

A jointly governed organization is a regional government or other multi-governmental arrangement that is governed by representatives from each of the governments that created the organization, but that is not a joint venture because the participants do not retain an ongoing financial interest or responsibility. Based on these criteria, the following are considered jointly governed organizations of the Warren County Fiscal Court: Bowling Green-Warren County Regional Airport Board, Joint City-County Board of Adjustment, Contractors Licensing Board, Depot Development Authority, Design Review Board, Historic Preservation Board, Bowling Green Area Convention and Visitors Bureau, Military Liaison Board, and Bowling Green-Warren County Greenbelt Advisory Committee.

WARREN COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2005
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

L. Interfund Transactions

The Warren County Fiscal Court has the following type of interfund transactions:

Interfund Transfers - Transfers presented in the fund financial statements represent the flow of assets (such as goods or cash) without equivalent flow of assets in return or requirement of repayment. The composition of the interfund transfers is presented in Note 5. Note that at the entity-wide level, the interfund transfers have been eliminated. This is to avoid revenues and expenses from being reported more than once.

Note 2. Deposits and Investments

A. Deposits

The primary government and the Inter-Modal Transportation Authority, Inc., its discretely presented component unit, maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1)(d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the county and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. The primary government and its discretely presented component unit met these requirements.

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a depository institution's failure, the government's deposits may not be returned to it. The primary government and its discretely presented component unit do not have deposit policies for custodial credit risk but rather follow the requirements of KRS 41.240(4). As of June 30, 2005, all deposits of the primary government and its discretely presented component unit were covered by FDIC insurance or a properly executed collateral security agreement. However, as of August 31, 2004, \$5,798 of the primary government's bank balance of \$4,898,378 was exposed to custodial credit risk as follows:

- Uncollateralized and uninsured - \$5,798

B. Investments

As of June 30, 2005, the primary government had the following investments and maturities:

Investment Type	Maturity Date	Fair Value (Cost)	Credit Rating	Concentration Percentage
Federal National Mortgage Association	09/30/2005	<u>\$ 100,000</u>	AAA	100%

WARREN COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2005
(Continued)

Note 2. Deposits and Investments (Continued)

B. Investments (Continued)

Interest Rate Risk - Investments

Warren County Fiscal Court does not have formal investment policies that limit investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit Risk and Concentration of Credit Risk- Investments

KRS 66.480, Warren County Fiscal Court (Fiscal Court) limits the Fiscal Court's investments in the following: obligations of the United States and its agencies and instrumentalities, including obligations subject to repurchase agreements, obligations and contracts for future delivery or purchase of obligations backed by the United States or its agencies and obligations of any corporation of the United States Government; certificates of deposit issued by or other interest bearing accounts of any bank or savings and loan institution rated in one of the three highest categories by a nationally recognized rating agency; banker's acceptances for banks rated in one of the three highest categories by a nationally recognized rating agency; commercial paper rated in one of the three highest categories by nationally recognized rating agency; bonds or certificates of indebtedness of this state and of its agencies and instrumentalities; securities issued by a state or local government, or any instrumentality of agency thereof, in the United States and rated in one of the three highest categories by a nationally recognized rating agency; and shares of mutual funds meeting specific characteristics outlined in the statute shall be eligible investments. Fiscal Court has an investment policy that states that no investment may be purchased on a margin basis or through the use of any similar leveraging techniques and that amounts over FDIC or SPIC coverage must be insured or collateralized. Also, Fiscal Court is limited to investing no more than 20% in any one of the following investments as allowed by KRS 66.480: certificates of deposit issued by a bank or savings and loan institution rated in one of the three highest categories by a nationally recognized rating agency, banker's acceptances for banks rated in one of the three highest categories by a nationally recognized rating agency, commercial paper rated in the highest category by a nationally recognized rating agency, or securities issued by a state or local government, or any instrumentality or agency thereof, in the United States, and rated in one of the three highest categories by a nationally recognized rating agency. Fiscal Court has no investment policies that would further limit its investment choices. In general, U. S. government obligations or obligations guaranteed by the United States Government are not subject to credit risk or concentration of credit risk.

Custodial Credit Risk - Investments

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the government will not be able to recover the value of its investments held in the possession of an outside party. Fiscal Court does not have an investment policy for custodial credit risk.

WARREN COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2005
(Continued)

Note 3. Restricted Assets - Inter-Modal Transportation Authority, Inc.

Certain proceeds of the Inter-Modal Transportation Authority, Inc.'s (ITA), a discretely presented component unit of the Warren County Fiscal Court, revenue bonds and revenue bond and anticipation notes are classified as restricted assets on the balance sheet because they are maintained in separate bank accounts and their use is limited by applicable debt covenants. Separate trust accounts are maintained by Wachovia Bank, N.A., trustee for the ITA's Series 2003A and Series 2003D revenue bond issues and by Central Bank & Trust Co., trustee for the ITA's Series 2004 and 2005 revenue bond and Series 2004 revenue and bond anticipation note issues.

Sinking funds are held and maintained by the trustee as the primary source of payment of the principal and interest on the bonds and notes. Revenue bond acquisition and construction funds are utilized for project development, acquisition, and construction costs. Revenue and bond anticipation note acquisition and construction fund monies are expended for costs of the refunding project, the redemption of all of its outstanding \$2,585,000 Revenue Bonds, Series 2003B and \$2,165,000 Revenue Bonds, Series 2003C.

Restricted assets held by trustees consist of the following at June 30, 2005:

	Fiscal Year Ended June 30, 2005
\$2,415,000 Inter-Modal Transportation Authority, Inc. First Mortgage Revenue Bonds, Series 2003A Sinking Fund	\$ 105,599
\$2,800,000 Inter-Modal Transportation Authority, Inc. First Mortgage Revenue Bonds, Series 2003D Sinking Fund	90,515
\$8,395,000 Inter-Modal Transportation Authority, Inc. First Mortgage Revenue Bonds, Series 2004 Sinking Fund	324,529
Acquisition and Construction Fund	87,672
\$4,750,000 Inter-Modal Transportation Authority, Inc. First Mortgage Revenue and Bond Anticipation Notes, Series 2004A Sinking Fund	108
Acquisition and Construction Fund	376,211
\$6,640,000 Inter-Modal Transportation Authority, Inc. First Mortgage Revenue Bonds, Series 2005 Sinking Fund	539,693
Acquisition and Construction Fund	3,552,479
Total Restricted Assets	<u>\$ 5,076,806</u>

WARREN COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2005
(Continued)

Note 3. Restricted Assets - Inter-Modal Transportation Authority, Inc (Continued)

Included in the following balance sheet captions:

Revenue bond and revenue and bond anticipation
note trustee accounts:

Current Assets	\$ 1,708,855
Noncurrent Assets	<u>3,367,951</u>
Total	<u>\$ 5,076,806</u>

Note 4. Capital Assets

Capital asset activity for the primary government for the year ended June 30, 2005 was as follows:

	Reporting Entity			
	Beginning Balance	Increases	Decreases	Ending Balance
Primary Government:				
<u>Governmental Activities:</u>				
Capital Assets Not Being Depreciated:				
Land	\$ 4,689,684	\$ 2,249,597		\$ 6,939,281
Construction In Progress	11,209,678		(11,209,678)	
Total Capital Assets Not Being Depreciated	15,899,362	2,249,597	(11,209,678)	6,939,281
Capital Assets, Being Depreciated:				
Buildings	38,803,320	6,852,457		45,655,777
Other Equipment	1,070,101	241,564		1,311,665
Land Improvements	32,510	2,470,931		2,503,441
Vehicles and Equipment	5,055,403	536,506	(47,124)	5,544,785
Infrastructure	103,999,488	900,860		104,900,348
Total Capital Assets Being Depreciated	148,960,822	11,002,318	(47,124)	159,916,016
Less Accumulated Depreciation For:				
Buildings	\$ (3,063,420)	\$ (567,988)		\$ (3,631,408)
Other Equipment	(403,584)	(102,226)		(505,810)
Land Improvements	(3,520)	(81,998)		(85,518)
Vehicles and Equipment	(2,597,945)	(342,160)	39,614	(2,900,491)
Infrastructure	(69,772,663)	(3,311,352)		(73,084,015)
Total Accumulated Depreciation	(75,841,132)	(4,405,724)	39,614	(80,207,242)
Total Capital Assets, Being Depreciated, Net	73,119,690	6,596,594	(7,510)	79,708,774
Governmental Activities Capital Assets, Net	\$ 89,019,052	\$ 8,846,191	\$ (11,217,188)	\$ 86,648,055

WARREN COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2005
(Continued)

Note 4. Capital Assets (Continued)

	Reporting Entity			Ending Balance
	Beginning Balance	Increases	Decreases	
Primary Government:				
<u>Business-Type Activities:</u>				
Capital Assets, Being Depreciated:				
Vehicles	\$ 49,981	\$ 43,412	\$ (12,635)	\$ 80,758
Total Capital Assets Being Depreciated	49,981	43,412	(12,635)	80,758
Less Accumulated Depreciation For:				
Vehicles	(44,004)	(28,138)	12,135	(60,007)
Total Accumulated Depreciation	(44,004)	(28,138)	12,135	(60,007)
Total Capital Assets, Being Depreciated, Net	5,977	15,274	(500)	20,751
Business-Type Activities Capital Assets, Net	<u>\$ 5,977</u>	<u>\$ 15,274</u>	<u>\$ (500)</u>	<u>\$ 20,751</u>

Depreciation expense was charged to functions of the primary government as follows:

Governmental Activities

General Government	\$ 402,793
Protection to Persons and Property	424,037
General Health and Sanitation	3,299
Recreation and Culture	173,145
Roads, Including Depreciation of General Infrastructure Assets	<u>3,402,450</u>
Total Depreciation Expense - Governmental Activities	<u>\$ 4,405,724</u>

Business-Type Activities

Jail Canteen	<u>\$ 28,138</u>
Total Depreciation Expense - Business Activities	<u>\$ 28,138</u>

WARREN COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2005
(Continued)

Note 4. Capital Assets (Continued)

Capital asset activity for discretely presented component units of the Warren County Fiscal Court for the year ended June 30, 2005 was as follows:

Discretely presented component unit:	Reporting Entity			
	Beginning Balance	Increases	Decreases	Ending Balance
Capital Assets Not Being Depreciated:				
Land	\$	\$ 146,279	\$	\$ 146,279
Total Capital Assets Not Being Depreciated		146,279		146,279
Capital Assets Being Depreciated:				
Buildings		283,500		283,500
Building Improvements		102,442		102,442
Other Equipment	17,710	13,508		31,218
Vehicles and Equipment	63,378	870		64,248
Web-Site Development	13,750	3,510		17,260
Total Capital Assets Being Depreciated	94,838	403,830		498,668
Less Total Accumulated Depreciation	(53,775)	(25,250)		(79,025)
Total Capital Assets, Being Depreciated, Net	41,063	378,580		419,643
Capital Assets, Net	\$ 41,063	\$ 524,859	\$ 0	\$ 565,922

Depreciation expense was charged to functions of the discretely presented major component units of the Warren County Fiscal Court as follows:

<u>Business-Type Activities</u>	
Inter-Modal Transportation Authority, Inc.	<u>\$ 25,250</u>

WARREN COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2005
(Continued)

Note 5. Interfund Transactions

The table below shows the interfund operating transfers for fiscal year 2005.

	General	Road and	Jail	Non-Major Governmental	Jail Canteen	Total
	Fund	Bridge Fund	Fund	Funds	Fund	Transfers In
General Fund	\$	\$ 200,000	\$ 200,000	\$	\$	\$ 400,000
Road Fund	775,000					775,000
Jail Fund	1,150,000				326,011	1,476,011
County Bond						
Sinking Fund	105,267					105,267
Non-Major						
Governmental Funds	443,176		705,316	671,689		1,820,181
Jail Canteen Fund			5,325			5,325
Total Transfers Out	<u>\$ 2,473,443</u>	<u>\$ 200,000</u>	<u>\$ 910,641</u>	<u>\$ 671,689</u>	<u>\$ 326,011</u>	<u>\$ 4,581,784</u>

Reasons for transfers: 1) to move resources from the General Fund, for budgetary purposes, to the fund that will expend them and 2) to move resources from funds recording the revenue to the fund making the debt service payments or other expenditures

Note 6. Long-term Debt

A. General Obligation Improvement Bonds, Series 1999

The Warren County Fiscal Court issued obligations, dated May 1, 1999 and payable in 20 annual installments beginning March 1, 2000, with \$1,290,000 term bonds due on March 1, 2020, and semi-annual interest payments on the first of March and September at varying rates from 3.200% to 4.875%. The fiscal court issued the bonds for the purpose of purchasing fire protection equipment and constructing an addition to and renovating the Warren County Regional Detention Facility. As of June 30, 2005, bonds outstanding were \$5,185,000. Future principal and interest requirements are:

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest
2006	\$ 330,000	\$ 238,361
2007	345,000	225,161
2008	260,000	210,930
2009	275,000	199,490
2010	285,000	187,390
2011-2015	1,640,000	732,630
2016-2020	2,050,000	309,285
Totals	<u>\$ 5,185,000</u>	<u>\$ 2,103,247</u>

WARREN COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2005
(Continued)

Note 6. Long-term Debt (Continued)

B. General Obligation Bonds, Series 2000

The Warren County Fiscal Court issued obligations, dated December 1, 2000 and payable in 17 annual installments beginning March 1, 2001, with the term bonds due on September 1 of the years 2012, 2023, 2026, and 2029; semi-annual interest payments at rates ranging from 4.75% to 5.20%. The fiscal court issued the bonds for the following purposes: i) redeeming prior to their stated maturity all the outstanding Warren County General Obligation Bond Anticipation Notes, Series 1999 (the "Prior Notes") dated July 1, 1999, originally issued to pay certain costs associated with construction of the Warren County Judicial Facility; ii) reimbursing the County for land acquisition costs associated with the parks projects; iii) depositing to the Construction Fund sufficient monies to complete a portion of the Project, and, iv) paying the costs of issuance of the bonds. As of June 30, 2005, bonds outstanding were \$9,410,000. Future principal and interest requirements are:

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest
2006	\$ 90,000	\$ 478,435
2007	100,000	473,898
2008	170,000	467,418
2009	185,000	458,898
2010	195,000	449,778
2011-2015	1,230,000	2,084,898
2016-2020	1,710,000	1,720,491
2021-2025	2,370,000	1,196,520
2026-2030	3,360,000	468,000
Totals	<u>\$ 9,410,000</u>	<u>\$ 7,798,336</u>

C. General Obligation Improvement Bonds, Series 2002

The Warren County Fiscal Court issued obligations, dated December 1, 2002 and payable in 15 annual installments beginning August 1, 2003, with the term bonds due on February 1 of the years 2020, 2024, 2026, and 2028; semi-annual interest payments at rates ranging from 4.00% to 4.50%. The fiscal court issued the bonds for the following purposes: i) completing major public parks, land acquisition and development plan; ii) remodeling the existing Warren County Courthouse; and, iii) paying the costs of issuance on the bonds. As of June 30, 2005, bonds outstanding were \$5,355,000. Future principal and interest requirements are:

WARREN COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2005
(Continued)

Note 6. Long-term Debt (Continued)

C. General Obligation Improvement Bonds, Series 2002 (Continued)

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest
2006	\$ 145,000	\$ 232,372
2007	150,000	226,573
2008	155,000	220,573
2009	160,000	214,373
2010	165,000	207,973
2011-2015	945,000	932,825
2016-2020	1,155,000	714,098
2021-2025	1,445,000	433,575
2026-2028	1,035,000	94,500
Totals	<u>\$ 5,355,000</u>	<u>\$ 3,276,862</u>

D. General Obligation Improvement Bonds, Series 2004

The Warren County Fiscal Court issued obligations, dated March 1, 2004 and payable in 11 annual installments beginning March 1, 2005, with \$1,600,000 term bonds due on March 1 of the years 2018, 2021, and 2024; and semi-annual interest payments on the first of March and September at varying rates from 2.00% to 4.30%. The Fiscal Court issued the bonds for the purpose of i) completing a major public parks land acquisition and development plan; ii) remodeling of the existing Warren County Courthouse; and iii) paying the costs of issuance on the bonds. As of June 30, 2005, bonds outstanding were \$1,540,000. Future principal and interest requirements are:

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest
2006	\$ 60,000	\$ 53,989
2007	60,000	52,789
2008	65,000	51,589
2009	65,000	50,191
2010	65,000	48,598
2011-2015	360,000	211,409
2016-2020	435,000	142,210
2021-2024	430,000	46,500
Totals	<u>\$ 1,540,000</u>	<u>\$ 657,275</u>

WARREN COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2005
(Continued)

Note 6. Long-term Debt (Continued)

E. General Obligation Refunding Bonds, Series 2004B

The Warren County Fiscal Court issued obligations, dated September 9, 2004, for the i) refunding the outstanding Public Project Revenue Bonds (Warren County Class D Facility), Series 1996, of the Warren County Regional Jail Corporation, an agency and instrumentality of the fiscal court; and, ii) paying the cost of issuance on the Bonds. The issue amount of the bonds was \$2,620,000. The interest rate varies from 2.00% to 3.70% with semi-annual interest payments on the first of December and June. As of June 30, 2005, bonds outstanding were \$2,405,000. Future principal and interest requirements are:

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest
2006	\$ 195,000	\$ 69,590
2007	195,000	65,690
2008	200,000	61,490
2009	205,000	56,421
2010	210,000	50,453
2011-2015	1,145,000	146,978
2016	255,000	4,653
Totals	<u>\$ 2,405,000</u>	<u>\$ 455,275</u>

F. Public Projects Revenue Bonds, Series 1996

On September 9, 2004, the Warren County Fiscal Court advance refunded the public projects revenue bonds, 1996 series, issued by the Warren County Regional Jail Corporation. Payments due on and after December 1, 2004 were paid from the escrow account. The bonds will be called on December 1, 2006. Total bonds outstanding as of June 30, 2005 totaled \$2,580,000. As of June 30, 2005, the escrow account had a balance of \$2,719,370.

G. Lease Revenue Refunding Bonds, Series 1992

The Justice Center Expansion Corporation (Corporation), formerly the Warren Public Judiciary Corporation, an agency and instrumentality of the fiscal court issued obligations. These bonds were issued to advance refund First Mortgage Bonds, 1985 Series A bonds dated July 1, 1985.

The Corporation has entered into a contract, lease and option with the fiscal court whereby the fiscal court has leased the Justice Center on an annual basis at a rental equal to the amount of interest on and principal of the bonds coming due and payable on July 1 and January 1 of each year. The fiscal court has an exclusive option to renew the lease each July 1. Should the fiscal court renew the lease until the bonds mature July 1, 2005, the Corporation will convey the Justice Center to the fiscal court. Should the fiscal court terminate the option to the lease, the fiscal court will give, upon request, immediate possession of the Justice Center to the Corporation or the trustee of the bondholders.

WARREN COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2005
(Continued)

Note 6. Long-term Debt (Continued)

G. Lease Revenue Refunding Bonds, Series 1992 (Continued)

Although the fiscal court is obligated to pay the Corporation annual rentals in the full amount of the principal and interest requirements of the bonds for each year the contract, lease, and option are renewed, the fiscal court expects to receive payments for the use of the Justice Center from the Kentucky Judicial Branch, Administrative Office of the Courts (AOC). The AOC will pay directly to the trustee a portion of the fiscal court's annual rental in the form of a use allowance. In addition, the AOC will pay the fiscal court certain expenses attributable to maintaining and operating the building. As of June 30, 2005, bonds outstanding were \$115,000. Future principal and interest requirements are:

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest
2006	\$ 115,000	\$ 3,163

H. First Mortgage Revenue Bonds, Series 1997A

The Justice Center Expansion Corporation (Corporation), an agency and instrumentality of the fiscal court issued obligations; dated June 1, 1997 and payable in 14 annual installments beginning September 1, 2000, with the term bonds due on September 1 of the years 2015, 2017, 2024, and 2029; semi-annual interest payments at rates ranging from 5.125% to 5.25%.

The Corporation entered into a contract lease and option with the Administrative Office of the Courts (AOC). The lease provides the AOC lease the project site and project at a rental equal to the full amount of the principal and interest requirements on the bonds for each year in which the lease is renewed. On July 1 of each even numbered year, the lease may be renewed by AOC for another biennial period of two years. Should the AOC renew the lease until the bonds mature, the Corporation will convey the project site and the project to the fiscal court. As of June 30, 2005, bonds outstanding were \$21,795,000. Future principal and interest requirements are:

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest
2006	\$ 435,000	\$ 1,136,687
2007	460,000	1,113,753
2008	480,000	1,089,665
2009	505,000	1,064,424
2010	535,000	1,037,774
2011-2015	3,135,000	4,727,704
2016-2020	4,065,000	3,787,569
2021-2025	5,285,000	2,566,944
2026-2030	6,895,000	961,529
Totals	\$ 21,795,000	\$ 17,486,049

WARREN COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2005
(Continued)

Note 6. Long-term Debt (Continued)

I. First Mortgage Revenue Bonds, Series 1999B

The Justice Center Expansion Corporation (Corporation), an agency and instrumentality of the fiscal court, issued \$3,460,000 First Mortgage Revenue Bonds on July 1, 1999 for the purpose of renovating and expanding the existing courthouse annex. The bonds are payable in 15 annual installments on the 1st of September, with term bonds due on September 1, of 2019, 2024, and 2029, and semi-annual interest payments due March and September at varying rates from 3.70% to 5.350%.

The Corporation, the fiscal court, and the State Administrative Office of the Courts (AOC) have entered into a lease agreement, dated July 1, 1999 wherein the AOC shall lease from the Corporation a portion of the project and project site at an agreed rental, which rental amount will be assigned by the Corporation to the Trustee and is anticipated to be adequate to pay 100% of the principal and interest on the Bonds. The lease does not require the fiscal court to make any rental payments toward the project; however, the fiscal court is obligated to provide operation, maintenance, insurance, and repair of the project. As of June 30, 2005, bonds outstanding were \$3,060,000. Future principal and interest requirements are:

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest
2006	\$ 65,000	\$ 161,749
2007	65,000	158,726
2008	70,000	155,519
2009	75,000	152,001
2010	75,000	148,289
2011-2015	450,000	676,199
2016-2020	585,000	538,903
2021-2025	765,000	358,115
2026-2030	910,000	120,725
Totals	<u>\$ 3,060,000</u>	<u>\$ 2,470,226</u>

J. Office Buildings

On December 19, 1994, the Warren County Fiscal Court entered into an agreement with the Kentucky Association of Counties Leasing Trust Program for the purchase of office buildings for the Health Department. The principal was \$580,000 at an effective interest rate of 6.94 percent for a period of 15 years, with interest paid monthly and principal paid annually. The principal outstanding as of June 30, 2005, was \$215,000. Future principal and interest requirements are:

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest & Fees
2006	\$ 49,000	\$ 10,169
2007	52,000	7,671
2008	55,000	4,847
2009	59,000	1,843
Totals	<u>\$ 215,000</u>	<u>\$ 24,530</u>

WARREN COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2005
(Continued)

Note 6. Long-term Debt (Continued)

K. Fire Trucks

On December 25, 1995, the Warren County Fiscal Court entered into an agreement with the Emergency One, Inc. for the purchase of five fire trucks. The principal was \$619,985 at an effective interest rate of 5.69 percent for a period of 10 years, with payments due quarterly in March, June, September, and December. The principal outstanding as of June 30, 2005, was \$20,034. Future principal and interest requirements are:

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest
2006	\$ 20,034	\$ 279

L. Emergency Management Vehicle

On July 2, 2002, the Warren County Fiscal Court entered into an agreement with the Kentucky Association of Counties Leasing Trust Program for the purchase of an emergency management vehicle for the emergency management services. The principal was \$30,327 at an effective interest rate of 3.60 percent for a period of 4 years, with interest paid monthly and principal paid annually. The principal outstanding as of June 30, 2005, was \$7,949. Future principal and interest requirements are:

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest
2006	\$ 7,949	\$ 167

M. Vehicles For Sheriff's Department

On November 4, 2004, the Warren County Fiscal Court entered into an agreement with the Kentucky Area Development District Leasing Fund (KADD) for the purchase of vehicles for the sheriff's department. The principal was \$230,000 at a variable interest rate for a period of 4 years, with interest paid semiannually and principal paid annually. The principal outstanding as of June 30, 2005, was \$230,000. Future principal and interest requirements are:

Fiscal Year Ended June 30	Principal	Interest & Fees
2006	\$ 55,000	\$ 6,244
2007	55,000	4,937
2008	60,000	3,350
2009	60,000	1,225
Totals	\$ 230,000	\$ 15,756

WARREN COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2005
(Continued)

Note 6. Long-term Debt (Continued)

N. Revenue Bonds – Inter-Modal Transportation Authority, Inc.

The Inter-Modal Transportation Authority, Inc.'s (ITA), a discretely presented component unit of the Warren County Fiscal Court, long-term debt consists of the following at June 30, 2005:

	Fiscal Year Ended June 30, 2005
Revenue Bonds, Series 2003A (a)	\$ 2,415,000
Revenue Bonds, Series 2003D (d)	2,800,000
Revenue Bonds, Series 2004 (e)	8,395,000
Revenue Bonds and Bond Anticipation Notes, Series 2004A (f)	4,750,000
Revenue Bonds, Series 2005 (g)	<u>6,640,000</u>
	\$ 25,000,000
Less unamortized bond discount	(329,539)
Less unamortized deferred amount arising from refunded bonds	<u>(74,425)</u>
Total Long-Term Debt	<u><u>\$ 24,596,036</u></u>

- (a) \$2,415,000 Inter-Modal Transportation Authority, Inc. First Mortgage Revenue Bonds, Series 2003A, dated July 29, 2003; fully registered bonds in the denominations of \$5,000 or any integral multiple thereof; maturing as to principal on November 1, 2013; subject to optional prior redemption on or after May 1, 2008 and mandatory redemption upon transfer of title to or use of any of project site acquired from bond net proceeds for private use, resulting in the bonds being declared as taxable securities in the opinion of bond counsel; interest at 3.875% payable semi-annually on May 1 and November 1, beginning May 1, 2004; secured by a first mortgage lien on the project and project site pursuant to mortgage deed of trust.
- (b) \$2,585,000 Inter-Modal Transportation Authority, Inc. First Mortgage Revenue Bonds, Series 2003B, dated August 19, 2003; fully registered bonds in the denomination of \$5,000 or any integral multiple thereof; maturing as to principal on November 1, 2013; subject to optional prior redemption on or after May 1, 2008 and mandatory redemption upon transfer of title to or use of any project site acquired from bond net proceeds for private use, resulting in the bonds being declared as taxable securities in the opinion of bond counsel; interest at 4.150% payable semi-annually on May 1 and November 1, beginning May 1, 2004; secured by a first mortgage lien on the project and project site pursuant to mortgage deed of trust.
- (c) \$2,165,000 Inter-Modal Transportation Authority, Inc. First Mortgage Revenue Bonds, Series 2003C, dated September 8, 2003; fully registered bonds in the denomination of \$5,000 or any integral multiple thereof; maturing as to principal on November 1, 2013; subject to optional prior redemption on or after May 1, 2008 and mandatory redemption upon transfer of title to or use of any project site acquired from bond net proceeds for private use, resulting in the bonds being declared as taxable securities in the opinion of bond counsel; interest at 4.000% payable semi-annually on May 1 and November 1, beginning May 1, 2004; secured by a first mortgage lien on the project and project site pursuant to mortgage deed of trust.

WARREN COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2005
(Continued)

Note 6. Long-term Debt (Continued)

N. Revenue Bonds – Inter-Modal Transportation Authority, Inc. (Continued)

- (d) \$2,800,000 Inter-Modal Transportation Authority, Inc. First Mortgage Revenue Bonds, Series 2003D, dated September 30, 2003; fully registered bonds in the denomination of \$5,000 or any integral multiple therefore; maturing as to principal on November 1, 2013; subject to optional prior redemption on or after May 1, 2008 and mandatory redemption upon transfer of title to or use of any project site acquired from bond net proceeds for private use, resulting in the bonds being declared as taxable securities in the opinion of bond counsel; interest at 3.800% payable semi-annually on May 1 and November 1, beginning May 1, 2004; secured by a first mortgage lien on the project and project site pursuant to mortgage deed of trust.
- (e) \$8,395,000 Inter-Modal Transportation Authority, Inc. First Mortgage Revenue Bonds, Series 2004, dated February 1, 2004; fully registered bonds in the denomination of \$5,000 or any integral multiple therefore; maturing as to principal on February 1 in annual installments of \$300,000 to \$550,000, beginning February 1, 2007 through February 1, 2024; thereafter \$1,175,000, 4.500% term bonds due February 1, 2026; bonds maturing after February 1, 2014 and thereafter subject to optional prior redemption on or after August 1, 2013; term bonds due February 1, 2026 subject to mandatory sinking fund redemption on February 1, 2025 in the principal amount of \$575,000; the remaining \$600,000 principal amount of term bonds due on February 1, 2026; interest at 2.000% to 4.500% payable semi-annually on February 1 and August 1, beginning August 1, 2004; secured by a first mortgage lien on the project and project site pursuant to mortgage deed of trust.
- (f) \$4,750,000 Inter-Modal Transportation Authority, Inc. First Mortgage Revenue and Bond Anticipation Notes, Series 2004A, dated February 9, 2004; fully registered bonds in the denomination of \$100,000 and multiples of \$25,000 over that; maturing as to principal on June 30, 2009; subject to optional redemption on the last day of any calendar month beginning June 30, 2004 in an amount not less than \$100,000; subject to mandatory redemption, beginning June 30, 2005 and each June 30 thereafter, unless on or before May 15, 2005, and on or before each May 15 thereafter, registered owner submits written mandatory redemption waiver; interest at LIBOR rate payable June 30, 2004, at maturity, to date of redemption if redeemed if redeemed earlier than June 30, 2005, and each June 30 thereafter; secured by a first mortgage lien on the project and project site pursuant to mortgage deed of trust.
- (g) \$6,640,000 Inter-Modal Transportation Authority, Inc. First Mortgage Revenue Bonds, Series 2005, dated January 1, 2005; fully registered bonds in the denomination of \$5,000 or any integral multiple therefore; maturing as to principal on February 1 in annual installments of \$250,000 to \$490,000, beginning February 1, 2008 through February 1, 2026; subject to optional prior redemption on or after February 1, 2015 and mandatory redemption upon transfer of title to or use of any project site acquired from bond net proceeds for private use, resulting in the bonds being declared as taxable securities in the opinion of bond counsel; interest at 3.000% to 4.500% payable semi-annually on February 1 and August 1, beginning August 1, 2005; secured by a first mortgage lien on the project and project site pursuant to mortgage deed of trust.
- (h) Current Refunding: On February 9, 2004, the Inter-Modal Transportation Authority, Inc. (ITA) issued \$4,750,000 First Mortgage Revenue and Bond Anticipation Notes, Series 2004A, to redeem the ITA's \$2,585,000 First Mortgage Revenue Bonds, Series 2003B and \$2,165,000 First Mortgage Revenue Bonds, Series 2003C under the extraordinary redemption provisions of the respective mortgage deeds of trust. The current refunding was undertaken because the ITA's proposed sale and transfer of certain property acquired with the proceeds of the Series 2003B Bonds and Series 2003C Bonds for private business use would have resulted in the Series 2003B Bonds and Series 2003C Bonds being treated as taxable securities. The reacquisition price exceeded the net carrying amount of the old debt by \$98,458. This difference, reported in the accompanying financial statements as a deduction from revenue and bond anticipation notes payable, is being amortized over the new debt's life, which is shorter than the refunded debt.

WARREN COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2005
(Continued)

Note 6. Long-term Debt (Continued)

N. Revenue Bonds – Inter-Modal Transportation Authority, Inc. (Continued)

(i) The annual requirements to amortize long-term debt outstanding as of June 30, 2005 are as follows:

Fiscal Year Ended June 30	Revenue Bonds		Revenue and Bond Anticipation Notes	
	Principal	Interest	Principal	Interest
2006	\$	\$ 807,162	\$	\$ 137,687
2007	300,000	785,475		144,571
2008	555,000	779,475		151,800
2009	575,000	764,250	4,750,000	159,390
2010	590,000	747,100		
2011-2015	8,450,000	3,131,219		
2016-2020	3,895,000	1,782,978		
2021-2025	4,795,000	898,173		
2026	1,090,000	49,050		
	<u>\$ 20,250,000</u>	<u>\$ 9,744,882</u>	<u>\$ 4,750,000</u>	<u>\$ 593,448</u>

O. Changes In Long-term Liabilities

Long-term liability activity for the primary government for the year ended June 30, 2005, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Primary Government:					
<u>Governmental Activities:</u>					
General Obligation					
Bonds	\$22,055,000	\$ 2,620,000	\$ 780,000	\$23,895,000	\$ 820,000
Revenue Bonds	28,290,000		3,320,000	24,970,000	615,000
Financing					
Obligations	<u>393,806</u>	<u>230,000</u>	<u>150,823</u>	<u>472,983</u>	<u>131,983</u>
Long-term					
Liabilities	<u>\$50,738,806</u>	<u>\$ 2,850,000</u>	<u>\$ 4,250,823</u>	<u>\$49,337,983</u>	<u>\$ 1,566,983</u>

WARREN COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2005
(Continued)

Note 6. Long-term Debt (Continued)

O. Changes In Long-term Liabilities (Continued)

Long-term liability activity for the discretely presented component unit of the Warren County Fiscal Court for the year ended June 30, 2005, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance
Discretely Presented				
Component Unit:				
<u>Business-type Activities:</u>				
Inter-Modal Transportation				
Authority, Inc.:				
Revenue Bonds	\$ 13,610,000	\$ 6,640,000	\$	\$20,250,000
Less unamortized discounts	(213,256)	(131,688)	(15,405)	(329,539)
	<u>13,396,744</u>	<u>6,508,312</u>	<u>(15,405)</u>	<u>19,920,461</u>
Revenue Bond				
Anticipation Notes	4,750,000			4,750,000
Less unamortized deferred amount on refunding	(93,031)		(18,606)	(74,425)
	<u>4,656,969</u>		<u>(18,606)</u>	<u>4,675,575</u>
Long-term Liabilities	<u>\$ 18,053,713</u>	<u>\$ 6,508,312</u>	<u>\$ (34,011)</u>	<u>\$24,596,036</u>

Note 7. Interest On Long-term Debt and Financing Obligations

Debt Service of the primary government on the Statement of Activities includes \$23,870 in interest on financing obligations, \$2,406,384 in interest on bonds, \$18,950 in management fees, \$46,526 in bond issuance costs, and \$228,875 in payment to refunded bonds escrow agent for amount over principal on public projects bonds refunded.

Note 8. Project Financing - Inter-Modal Transportation Authority, Inc.

On February 14, 2001, the Warren County Fiscal Court adopted a resolution authorizing and approving the Inter-Modal Transportation Authority, Inc. (ITA), a discretely presented component unit of the Warren County Fiscal Court, as the agency, instrumentality and constituted authority of the fiscal court, to issue up to \$25,000,000 in first mortgage revenue bonds for project financing. The resolution also approved issuance up to \$25,000,000 of bond anticipation notes to provide interim financing for the project pending issuance of the bonds.

WARREN COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2005
(Continued)

Note 8. Project Financing - Inter-Modal Transportation Authority, Inc. (Continued)

On April 2, 2001, the fiscal court petitioned the State Local Debt Officer pursuant to KRS 66.310 to issue the bonds. A Warren County taxpayer filed objections and appealed the fiscal court's issuance of the bonds. The bond issuance was approved by the State Local Debt Officer, County Debt Commission, the Franklin Circuit Court, and the Kentucky Court of Appeals. The Kentucky Court of Appeals rendered a final non-appealable opinion sustaining and approving the proposed bond issue; therefore, the Warren County taxpayer's appeal was dismissed and no longer subject to any further appeal. The ITA issued first mortgage revenue bonds in fiscal year 2004.

Warren County Fiscal Court and the City of Bowling Green (City), pursuant to the Kentucky Increment Financing Act (KRS 65.680 to 65.699) have adopted ordinances authorizing the creation of a tax increment district in the development area to support the financing of the project, whereby the ITA will receive 80% of the incremental State, City, and County real estate taxes generated by businesses that locate in the development area. The ITA will also receive 1.5% of a County wage assessment to be assessed on wages paid by businesses locating in the development area.

The City of Bowling Green, Kentucky, and eleven additional cities and counties of south-central Kentucky, have passed resolutions authorizing and approving the execution of an Interlocal Cooperation Agreement, in accordance with the Interlocal Cooperation Act, pursuant to their support and extent of participation in the project.

The City of Bowling Green has agreed to join the County of Warren in a commitment to jointly, equally, and cooperatively assist in the development of the project.

Note 9. Related Party Transactions

A. Management Agreement

On September 18, 2001, the Inter-Modal Transportation Authority, Inc. (ITA), a discretely presented component unit of the Warren County Fiscal Court, entered into a management agreement with the South Central Kentucky Regional Development Authority (RDA), a discretely presented component unit of the Warren County Fiscal Court, a non-profit, industrial development authority created by Warren County Fiscal Court pursuant to KRS 154.50-301 through KRS 154.50-346 to finance the acquisition and development of industrial property in Warren County.

The agreement grants the ITA sole authorization to purchase, supervise, direct, control, manage, lease, and sell certain real estate for the RDA at prices and terms determined by the ITA. The ITA was responsible for maintenance and upkeep, construction of any improvements, and payment of taxes, insurance, and other expenses applicable to the real estate and had an exclusive option to purchase all real estate held by the RDA for the RDA's total original cost including interest and maintenance fees, if applicable, subject to promissory notes and mortgages.

The term of the agreement is for five years with either party having the option to renew the agreement for two terms of five years each.

The agreement was effectively terminated upon the ITA's final acquisition of real estate owned by the RDA on October 1, 2003.

WARREN COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2005
(Continued)

Note 9. Related Party Transactions (Continued)

B. Master Total Net Lease Agreement

On July 26, 2002, the Inter-Modal Transportation Authority, Inc. (ITA), a discretely presented component unit of the Warren County Fiscal Court, entered into a master total net lease agreement with the South Central Kentucky Regional Development Authority (RDA), a discretely presented component unit of the Warren County Fiscal Court, for lease of real estate, including land, houses, buildings, barns, and other improvements thereon, acquired pursuant to the management agreement. The lease term is for one year commencing August 1, 2002. The lease provided for a yearly rental amount of \$10 payable in advance. The ITA had the option to extend the lease for ten successive one-year terms.

During the term of the lease agreement, the ITA assumes all obligations and expenses in regard to maintenance and use of the real estate.

The agreement was effectively terminated upon the ITA's final acquisition of real estate owned by the RDA on October 1, 2003.

C. Real Estate Acquisitions, Commitments

In October 2001, the South Central Kentucky Regional Development Authority (RDA), a discretely presented component unit of the Warren County Fiscal Court, issued \$6,000,000 First Mortgage Revenue Bonds to finance the acquisition of real estate. As of June 30, 2003, the RDA's real estate acquisitions, subject to management agreement, totaled \$5,383,682. In addition, the RDA's outstanding commitments to acquire real estate in future years pursuant to real estate purchase agreements totaled \$4,820,085 as of June 30, 2003.

The Inter-Modal Transportation Authority, Inc. (ITA), a discretely presented component unit of the Warren County Fiscal Court, issued a series of first mortgage revenue bonds in fiscal year 2004. Real estate owned by the RDA was acquired by the ITA from proceeds of the Series 2003B revenue bonds (\$2,270,021), Series 2003C revenue bonds (\$1,900,180), and Series 2003D revenue bonds (\$1,617,169). The RDA's outstanding bonds of \$6,000,000 were paid on October 1, 2003.

The ITA's outstanding commitments to acquire real estate in future years pursuant to real estate purchase agreements total \$1,179,488 as of June 30, 2004 and \$235,000 as of June 30, 2005.

D. Lease Agreements

The Inter-Modal Transportation Authority, Inc. (ITA), a discretely presented component unit of the Warren County Fiscal Court, has entered into net residential and net farm lease agreements as agent for and on behalf of the South Central Kentucky Regional Development Authority (RDA), a discretely presented component unit of the Warren County Fiscal Court, pursuant to the terms of the management agreement. The lease agreements provide for lease of specific real estate acquired by the RDA and are for one-year terms with varying renewal options.

WARREN COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2005
(Continued)

Note 10. Commitments and Contingencies

A. Lovers Lane Soccer Complex

During 1996, the Warren County Fiscal Court entered into an agreement with the City of Bowling Green to fund 20% of construction costs associated with the Lovers Lane Soccer Complex. The City of Bowling Green Municipal Project Corporation issued \$2,365,000 of Series 1995 Lease Revenue Bonds to finance the project. The fiscal court's commitment as of June 30, 2005, totaled \$331,093 payable at varying amounts semiannually in conjunction with the principal and interest payments due on the bonds, which mature November 1, 2015.

B. Community Public Safety/Public Service Mobile Radio Communications System

During 1997, the Warren County Fiscal Court entered into an agreement with the City of Bowling Green to fund 55% of the total cost associated with the purchase and establishment of a community public safety/public service mobile radio communications system. The City of Bowling Green Municipal Projects Corporation issued \$1,560,000 of Series 1997 Lease Revenue Bonds to finance the project. The fiscal court's commitment as of June 30, 2005, totaled \$201,878 payable in varying amounts semiannually in conjunction with the principal and interest payments due on the bonds, which mature June 1, 2007.

C. Historic Railroad Depot

An Interlocal Cooperation Agreement relating to the Historic Railroad Depot was entered into on February 2, 2001 by and between the City of Bowling Green (City) and the Warren County Fiscal Court (County). The City and the County authorized the creation of a jointly governed organization, a public non-profit corporation known as the Depot Development Authority, a corporation, to act as the agent, instrumentality and constituted authority of the City and the County in connection with the planning, promotion, development, financing, and acquisition by the corporation of the historic railroad station located in Bowling Green. The City and County have agreed to borrow up to \$1,000,000 to repay the debt of the Authority and finish the renovation of the Depot. The City and County have agreed to equally share the costs of this loan over a twenty-year period and to share equally the responsibility and the costs of the remaining renovation, promotion, development, financing, management and maintenance of the historic depot. During fiscal year ended June 30, 2005, the County made payments totaling \$49,584.

D. Health Department

The Warren County Fiscal Court established a county health department under KRS 212.040. Upon the resolution being passed establishing the county health department, the fiscal court is required to appropriate a sufficient amount for the creation, establishment, and maintenance of the county health department. The fiscal court budgeted and paid \$916,931 for fiscal year ended June 30, 2005. For the fiscal years ended June 30, 2006 and June 30, 2007, the fiscal court budgeted \$963,946 and \$1,056,391, respectively.

WARREN COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2005
(Continued)

Note 10. Commitments and Contingencies (Continued)

E. Construction Commitments - Inter-Modal Transportation Authority, Inc.

The Inter-Modal Transportation Authority, Inc.'s (ITA), a discretely presented component unit of the Warren County Fiscal Court, construction commitments as of June 30, 2005 consist of the following:

Project	Spent-to-Date	Remaining Commitment
1,000,000 gallon elevated water storage tank	\$ 980,139	\$ 165,112
Access road grade and drain, water and sewer lines	6,526,774	1,674,023
Paving	1,055,191	516,724
Total	<u>\$ 8,562,104</u>	<u>\$ 2,355,859</u>

The construction commitments are being financed by the ITA's \$8,395,000 First Mortgage Revenue Bonds, Series 2004, dated February 1, 2004 and by the ITA's \$6,640,000 First Mortgage Revenue Bonds, Series 2005A, issued on February 3, 2005. In addition, the Commonwealth of Kentucky, Transportation Cabinet, has agreed to provide funding up to \$1,200,000 toward construction of a transpark access road. In January 2006, the ITA also awarded an \$834,000 contract for extension of Technology Way, an internal transpark road.

F. Agreement For Management And Marketing Services – Inter-Modal Transportation Authority, Inc.

On August 25, 2004, the Inter-Modal Transportation Authority, Inc. (ITA), a discretely presented component unit of the Warren County Fiscal Court, and the Bowling Green Area Chamber of Commerce, Inc. (Chamber) entered into an "agreement for management and marketing services." The Chamber agrees to provide management and marketing services to the ITA, including management of staff, assets and operations, reporting to ITA committees and board of directors, management of lead-tracking system for economic development prospects, development and implementation of economic development marketing plan, administration and oversight of annual budget and long-term financial obligations, coordination of funding initiatives, development and maintenance of database of available industrial buildings and sites in South Central Kentucky, providing primary clerical staff support and public relations, and communication services to the ITA.

The agreement, effective September 1, 2004, is for a three-year term and may be terminated by either party after one year. The agreement provides for payment of a management fee to the Chamber for services rendered, payable \$12,250 per month in year one, \$12,865 per month in year two, and \$13,515 per month in year three. The management fee is based upon three Chamber professional positions of President, Vice-President for Economic Development, and Economic Development Coordinator on staff, adjustable on a pro-rata basis for vacant positions. In addition, the Chamber will receive one percent (1%) of the net proceeds of all real estate sales in the transpark if, in any one fiscal year, the ITA sells more than sixty acres, excluding sales of land currently under contract.

The ITA and Chamber entered into a "supplemental agreement" effective April 1, 2005, whereby the ITA agrees to provide financial management services for the Chamber at a fee of \$3,042 per month. The fee increases to \$3,195 per month beginning September 1, 2005 and \$3,355 per month beginning September 1, 2006. Net management fees paid by the ITA to the Chamber pursuant to agreement totaled \$106,484 for the year ending June 30, 2005.

WARREN COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2005
(Continued)

Note 10. Commitments and Contingencies (Continued)

G. Agreement For Purchase And Sale – Inter-Modal Transportation Authority, Inc

On December 12, 2003, the Inter-Modal Transportation Authority, Inc. (ITA), a discretely presented component unit of the Warren County Fiscal Court, entered into an “agreement for purchase and sale” (agreement) relative to the sale of approximately 132 acres of ITA’s transpark real estate (property). The real estate closing occurred on February 11, 2004. The agreement also grants to the buyer an option to purchase approximately 77 acres adjacent to the purchased tract, pursuant to a “memorandum of option agreement.” The option to purchase, for a period of 60 months from February 11, 2004, was modified on December 7, 2005 to clarify property description subject to option agreement.

The City of Bowling Green, Kentucky has previously adopted a zoning ordinance permitting the use of the property as “heavy industry” for the buyer’s construction and operation of a new manufacturing plant. The current zoning of the property, however, is subject to an appeal by certain persons seeking to reverse the rezoning under the provision of KRS 100.347 in the Warren Circuit Court being Civil Action Number 03-CI-1782. As a result, the ITA entered into an “agreement for reimbursement and repurchase” with the buyer to indemnify the buyer for its economic risk in commencing construction and operation of its manufacturing plant prior to the final determination of the above-referenced civil action. For a period of two years following real estate closing, the ITA shall repurchase the property from the buyer in the event of a decision overturning the rezoning, in accordance with terms of the “agreement for reimbursement and repurchase.”

Note 11. Employee Retirement System

The Warren County Fiscal Court and the Inter-Modal Transportation Authority, Inc., a discretely presented component unit of the Warren County Fiscal Court, have elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a cost sharing, multiple-employer, defined benefit pension plan, which covers all eligible full-time employees and provides for retirement, disability, and death benefits to plan members. Benefit contributions and provisions are established by statute. Nonhazardous covered employees are required to contribute 5 percent of their salary to the plan. The county’s contribution rate for nonhazardous employees was 8.48 percent. Hazardous covered employees are required to contribute 8 percent of their salary to the plan. The county’s contribution rate for hazardous employees was 18.51 percent.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65. Aspects of benefits for hazardous employees include retirement after 20 years of service or age 55.

Historical trend information showing the CERS’ progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems’ annual financial report. This report may be obtained by writing the Kentucky Retirement System, 1260 Louisville Road, Frankfort, Kentucky 40601-6124, or by telephone at (502) 564-4646.

WARREN COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2005
(Continued)

Note 12. Deferred Compensation

On February 24, 2000, the Warren County Fiscal Court voted to allow all eligible employees to participate in deferred compensation plans administered by the Kentucky Public Employees' Deferred Compensation Authority. The Kentucky Public Employees' Deferred Compensation Authority is authorized under KRS 18A.230 to 18A.275 to provide administration of tax sheltered supplemental retirement plans for all state, public school and university employees and employees of local political subdivisions that have elected to participate. These deferred compensation plans permits all full time employees to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency. Participation by eligible employees in the deferred compensation plans is voluntary.

Historical trend information showing the Kentucky Public Employees' Deferred Compensation Authority's progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Public Employees' Deferred Compensation Authority's annual financial report.

Note 13. Insurance

For the fiscal year ended June 30, 2005, Warren County was a member of the Kentucky Association of Counties' All Lines Fund (KALF). KALF is a self-insurance fund and was organized to obtain lower cost coverage for general liability, property damage, public officials' errors and omissions, public liability, and other damages. The basic nature of a self-insurance program is that of a collectively shared risk by its members. If losses incurred for covered claims exceed the resources contributed by the members, the members are responsible for payment of the excess losses.

Note 14. Subsequent Events

A. First Mortgage Refunding Revenue Bonds, Series 2005

On November 21, 2005, the Warren County Justice Center Expansion Corporation issued \$25,960,000 of first mortgage refunding revenue bonds to partially advance refund the first mortgage revenue bonds, series 1997A, and the first mortgage revenue bonds, series 1999B, both issued by the Warren County Justice Center Expansion Corporation. The 2005 series bonds were issued at various rates from 3.75% through 4.50%. The final maturity date of the 2005 series bonds is September 1, 2029.

B. Inter-Modal Transportation Authority, Inc.

Real Estate Acquisitions

The Inter-Modal Transportation Authority, Inc.'s (ITA), a discretely presented component unit of the Warren County Fiscal Court, real estate expenditures, pursuant to real estate purchase agreements, totaled \$104,907 in November 2005.

Land Sales

The Inter-Modal Transportation Authority, Inc.'s (ITA), a discretely presented component unit of the Warren County Fiscal Court, net proceeds from land sales totaled \$170,280, applicable to real estate closings in January, 2006.

WARREN COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2005
(Continued)

Note 14. Subsequent Events (Continued)

B. Inter-Modal Transportation Authority, Inc. (Continued)

Land Sales – Related Party

On January 30, 2006, the Inter-Modal Transportation Authority, Inc. (ITA), a discretely presented component unit of the Warren County Fiscal Court, sold 59.91 acres of unsecured transpark land for \$3,000,000 to the South Central Kentucky Regional Development Authority (RDA), a discretely presented component unit of the Warren County Fiscal Court and a related party of ITA. RDA financed the land purchase (Project) with a portion of the proceeds of Kentucky Area Development Districts Financing Trust Lease Acquisition Program Certificates of Participation, Series 2005 Series W, dated November 23, 2005. In association with project financing, the ITA as sublessee, entered into an annual renewable Sublease Agreement, effective November 23, 2005, for lease of the Project and Project site from the RDA. The Certificates are secured by a Mortgage and Security Agreement, dated November 23, 2005, on the Project. Lease payments are payable each May 1 and November 1, beginning May 1, 2006. Certificate proceeds included \$266,055 for capitalized interest; therefore, ITA funding of lease payments will not be required until beginning May 1, 2008.

Note 15. Prior Period Adjustments

The beginning net asset balances as of June 30, 2004 for governmental activities of the primary government and business-type activities of the primary government of Warren County Fiscal Court have been restated due to correction of errors. The discretely presented component units of the Warren County Fiscal Court have been restated due to financial data of Southern Kentucky Performing Arts Center, Inc. and Regional Development Authority not being included in the discretely presented component units. The following is a reconciliation of net assets of June 30, 2004, as previously reported to the restated net assets balance for the same period.

	Governmental Activities	Business-type Activities	Discretely Presented Component Units
Beginning net assets at June 30, 2004	\$ 44,800,751	\$ 131,249	\$ 8,953,756
Adjustments to correct errors:			
Reclassify agency fund to business-type activities		69,979	
Adjustment to increase capital assets (net of accumulated depreciation) to correct prior year misstatement	246,544		
Adjustment to decrease long-term liabilities for prior year misstatement	143		
Adjustment to decrease net assets for financial data of Southern Kentucky Performing Arts Center, Inc. and Regional Development Authority not included in discretely presented component units			(6,166,841)
Restated beginning net assets at June 30, 2004	<u>\$ 45,047,438</u>	<u>\$ 201,228</u>	<u>\$ 2,786,915</u>

WARREN COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2005
(Continued)

Note 15. Prior Period Adjustments (Continued)

In addition, the beginning fund net asset balance as of June 30, 2004 for the Jail Canteen Fund and the beginning cash balance for the Jail Canteen Fund have been restated by \$69,979 for an agency fund previously included in error.

Note 16. Estimated Infrastructure Historical Cost

Historical cost of infrastructure placed in service prior to the fiscal year ended June 30, 2003 (year of GASB 34 implementation) is an estimate. For those assets, the primary government estimated the year infrastructure was built by determining when a major reconstruction had been done on infrastructure. This estimate was used to calculate the infrastructure historical cost by determining current year construction cost and deflating it back to the estimated year of construction or reconstruction. Estimated infrastructure historical cost includes infrastructure placed in service from fiscal year 1984 through current fiscal year. All infrastructure assets placed in service during the fiscal year ended June 30, 2003 and thereafter are recorded at actual cost.

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WARREN COUNTY
BUDGETARY COMPARISON SCHEDULES – MAJOR FUNDS
REQUIRED SUPPLEMENTARY INFORMATION

For The Year Ended June 30, 2005

WARREN COUNTY
BUDGETARY COMPARISON SCHEDULES - MAJOR FUNDS
Required Supplementary Information
Modified Cash Basis

For The Year Ended June 30, 2005

	GENERAL FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Taxes	\$ 7,860,000	\$ 7,935,000	\$ 8,157,911	\$ 222,911
In Lieu Tax Payments	126,200	126,200	127,603	1,403
Excess Fees	1,000,000	1,000,000	901,079	(98,921)
Licenses and Permits	950,000	950,000	1,024,008	74,008
Intergovernmental Revenue	2,215,813	3,269,578	2,338,246	(931,332)
Charges for Services	1,034,417	1,034,417	177,325	(857,092)
Miscellaneous	420,000	830,066	401,253	(428,813)
Interest	350,000	350,000	58,710	(291,290)
Total Revenues	<u>13,956,430</u>	<u>15,495,261</u>	<u>13,186,135</u>	<u>(2,309,126)</u>
EXPENDITURES				
General Government	4,863,869	5,310,031	5,070,017	240,014
Protection to Persons and Property	1,277,200	1,744,672	1,586,543	158,129
General Health and Sanitation	1,543,366	1,760,392	1,570,543	189,849
Social Services	161,025	410,609	336,690	73,919
Recreation and Culture	2,254,627	2,714,404	2,631,075	83,329
Airports	140,392	147,675	147,675	
Debt Service	1,340,243	1,166,763	1,073,384	93,379
Capital Projects	136,148	211,148	69,391	141,757
Administration	1,108,681	1,178,288	935,391	242,897
Total Expenditures	<u>12,825,551</u>	<u>14,643,982</u>	<u>13,420,709</u>	<u>1,223,273</u>
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>1,130,879</u>	<u>851,279</u>	<u>(234,574)</u>	<u>(1,085,853)</u>
OTHER FINANCING SOURCES (USES)				
Transfers From Other Funds			400,000	400,000
Transfers To Other Funds	<u>(1,130,879)</u>	<u>(1,396,679)</u>	<u>(1,925,000)</u>	<u>(528,321)</u>
Total Other Financing Sources (Uses)	<u>(1,130,879)</u>	<u>(1,396,679)</u>	<u>(1,525,000)</u>	<u>(128,321)</u>
Net Changes in Fund Balance		(545,400)	(1,759,574)	(1,214,174)
Fund Balance - Beginning		<u>545,400</u>	<u>4,419,451</u>	<u>3,874,051</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 2,659,877</u>	<u>\$ 2,659,877</u>

WARREN COUNTY
BUDGETARY COMPARISON SCHEDULES - MAJOR FUNDS
Required Supplementary Information
Modified Cash Basis
For The Year Ended June 30, 2005
(Continued)

**Reconciliation of Budgetary Statement to Statement of Revenues, Expenditures, and
Changes In Fund Balances - Governmental Funds - Modified Cash Basis:**

Fund Balance per Budgetary Statement	\$ 2,659,877
Interest Earned On Financing Obligation Proceeds	2,630
Expenditures Related To Financing Obligation	(2,482)
Financing Obligation Proceeds	<u>230,000</u>
Ending Fund Balance per Statement of Revenues, Expenditures, and Changes in Fund Balances	<u><u>\$ 2,890,025</u></u>

WARREN COUNTY
BUDGETARY COMPARISON SCHEDULES - MAJOR FUNDS
Required Supplementary Information
Modified Cash Basis
For The Year Ended June 30, 2005
(Continued)

ROAD AND BRIDGE FUND				
	<u>Budgeted Amounts</u>		<u>Actual Amounts, (Budgetary Basis)</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
REVENUES				
Intergovernmental Revenue	\$ 1,495,000	\$ 1,514,503	\$ 2,288,153	\$ 773,650
Miscellaneous	85,000	1,570,088	708,794	(861,294)
Interest	10,000	10,000	996	(9,004)
Total Revenues	<u>1,590,000</u>	<u>3,094,591</u>	<u>2,997,943</u>	<u>(96,648)</u>
EXPENDITURES				
Roads	1,291,648	1,322,026	1,257,504	64,522
Road Facilities	2,000	6,700	6,046	654
Capital Projects	600,000	2,117,341	2,117,114	227
Administration	303,502	255,674	244,398	11,276
Total Expenditures	<u>2,197,150</u>	<u>3,701,741</u>	<u>3,625,062</u>	<u>76,679</u>
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>(607,150)</u>	<u>(607,150)</u>	<u>(627,119)</u>	<u>(19,969)</u>
OTHER FINANCING SOURCES (USES)				
Transfers From Other Funds	607,150	607,150	775,000	167,850
Transfers To Other Funds			<u>(200,000)</u>	<u>(200,000)</u>
Total Other Financing Sources (Uses)	<u>607,150</u>	<u>607,150</u>	<u>575,000</u>	<u>(32,150)</u>
Net Changes in Fund Balance			(52,119)	(52,119)
Fund Balance - Beginning			<u>166,001</u>	<u>166,001</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 113,882</u>	<u>\$ 113,882</u>

WARREN COUNTY
BUDGETARY COMPARISON SCHEDULES – MAJOR FUNDS
Required Supplementary Information
Modified Cash Basis
For The Year Ended June 30, 2005
(Continued)

	JAIL FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Intergovernmental Revenue	\$ 4,238,506	\$ 4,238,506	\$ 4,040,308	\$ (198,198)
Charges for Services	473,562	473,562	430,503	(43,059)
Miscellaneous	412,948	412,948	393,220	(19,728)
Interest	17,000	17,000	1,850	(15,150)
Total Revenues	5,142,016	5,142,016	4,865,881	(276,135)
EXPENDITURES				
Protection to Persons and Property	4,089,005	4,442,772	4,374,941	67,831
Debt Service	764,309	704,616	704,616	
Administration	812,431	784,157	782,454	1,703
Total Expenditures	5,665,745	5,931,545	5,862,011	69,534
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	(523,729)	(789,529)	(996,130)	(206,601)
OTHER FINANCING SOURCES (USES)				
Transfers From Other Funds	523,729	789,529	1,150,000	360,471
Transfers To Other Funds			(200,000)	(200,000)
Total Other Financing Sources (Uses)	523,729	789,529	950,000	160,471
Net Changes in Fund Balance			(46,130)	(46,130)
Fund Balance - Beginning			125,068	125,068
Fund Balance - Ending	\$ 0	\$ 0	\$ 78,938	\$ 78,938

WARREN COUNTY
BUDGETARY COMPARISON SCHEDULES - MAJOR FUNDS
Required Supplementary Information
Modified Cash Basis
For The Year Ended June 30, 2005
(Continued)

**Reconciliation of Budgetary Statement to Statement of Revenues, Expenditures, and
Changes In Fund Balances - Governmental Funds - Modified Cash Basis:**

Fund Balance per Budgetary Statement	\$ 4,865,881	
Transfer In From Jail Canteen Fund	<u>(326,011)</u>	\$ 4,539,870
Total Expenditures per Budgetary Statement	(5,862,011)	
Transfers Out To General Obligation Bond Fund	705,316	
Transfers Out To Jail Canteen Fund	<u>5,325</u>	(5,151,370)
Other Financing Sources (Uses) per Budgetary Statement	950,000	
Transfer In From Jail Canteen Fund	326,011	
Transfers Out To General Obligation Bond Fund	(705,316)	
Transfers Out To Jail Canteen Fund	<u>(5,325)</u>	565,370
Beginning Fund Balance per Budgetary Statement		<u>125,068</u>
Ending Fund Balance per Budgetary Statement and Statement of Revenues, Expenditures, and Changes in Fund Balances		<u>\$ 78,938</u>

WARREN COUNTY
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

June 30, 2005

Budgetary Information

Annual budgets are adopted on a cash basis of accounting and according to the laws of Kentucky as required by the State Local Finance Officer.

The County Judge/Executive is required to submit estimated receipts and proposed expenditures to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Expenditures may not exceed budgeted appropriations at the activity level.

**WARREN COUNTY
COMBINING BALANCE SHEET -
NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information**

June 30, 2005

WARREN COUNTY
COMBINING BALANCE SHEET -
NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information

June 30, 2005

		Special Revenue Fund Type			
		Local Government Economic Assistance Fund	Park Enterprise Fund	Emergency 911 Fund	Federal Drug Forfeiture Fund
ASSETS					
Cash and Cash Equivalents		\$ (1,998)	\$ 143,731	\$ 37,791	\$ 14,057
Total Assets		<u>\$ (1,998)</u>	<u>\$ 143,731</u>	<u>\$ 37,791</u>	<u>\$ 14,057</u>
FUND BALANCES					
Unreserved:					
Special Revenue Fund Type	\$	(1,998)	\$ 143,731	\$ 37,791	\$ 14,057
Debt Service Fund Type					
Total Fund Balances		<u>\$ (1,998)</u>	<u>\$ 143,731</u>	<u>\$ 37,791</u>	<u>\$ 14,057</u>

WARREN COUNTY
COMBINING BALANCE SHEET -
NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information
June 30, 2005
(Continued)

Debt Service Fund Type			
General Obligation Bond Fund	Regional Jail Corporation Fund	Justice Center Expansion Corporation Fund	Total Non-Major Governmental Funds
\$ 809	\$	\$ 118,163	\$ 312,553
\$ 809	\$ 0	\$ 118,163	\$ 312,553
\$ 809	\$	\$ 118,163	\$ 193,581
\$ 809	\$	\$ 118,163	\$ 118,972
\$ 809	\$ 0	\$ 118,163	\$ 312,553

WARREN COUNTY
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information
For The Year Ended June 30, 2005

WARREN COUNTY
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information

For The Year Ended June 30, 2005

	Special Revenue Fund Type			
	Local Government Economic Assistance Fund	Park Enterprise Fund	Emergency 911 Fund	Federal Drug Forfeiture Fund
REVENUES				
Taxes	\$	\$	\$ 366,946	\$
Intergovernmental	2,306,106			
Miscellaneous		7,473		
Interest	1,947	1,336		265
Total Revenues	2,308,053	8,809	366,946	265
EXPENDITURES				
General Government	1,940,000			
Protection to Persons and Property	56,565		371,248	20,860
Social Services	50,000			
Recreation and Culture		27		
Roads	310,850			
Debt Service				
Administration	75			
Total Expenditures	2,357,490	27	371,248	20,860
Excess (deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	(49,437)	8,782	(4,302)	(20,595)
Other Financing Sources (Uses)				
Issuance Of Refunding Bonds				
Payment To Refunded Bond Escrow Agent				
Transfers From Other Funds				
Transfers To Other Funds				
Total Other Financing Sources (Uses)				
Net Change in Fund Balances	(49,437)	8,782	(4,302)	(20,595)
Fund Balances - Beginning	47,439	134,949	42,093	34,652
Fund Balances - Ending	\$ (1,998)	\$ 143,731	\$ 37,791	\$ 14,057

The notes of the financial statements are an integral part of this statement.

WARREN COUNTY
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information
For The Year Ended June 30, 2005
(Continued)

Debt Service Fund Type			
General Obligation Bond Fund	Regional Jail Corporation Fund	Justice Center Expansion Corporation Fund	Total Non-Major Governmental Funds
\$	\$	\$	\$
		1,928,332	366,946
3,008			4,234,438
304	1,021	3,164	10,481
3,312	1,021	1,931,496	8,037
			4,619,902
			1,940,000
			448,673
			50,000
			27
			310,850
1,418,488		1,928,412	3,346,900
			75
1,418,488		1,928,412	6,096,525
(1,415,176)	1,021	3,084	(1,476,623)
2,620,000			2,620,000
(2,963,528)	(347)		(2,963,875)
1,759,054		61,127	1,820,181
	(387,048)	(284,641)	(671,689)
1,415,526	(387,395)	(223,514)	804,617
350	(386,374)	(220,430)	(672,006)
459	386,374	338,593	984,559
\$ 809	\$ 0	\$ 118,163	\$ 312,553

The notes of the financial statements are an integral part of this statement.

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WARREN COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Other Supplementary Information

For The Year Ended June 30, 2005

WARREN COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Other Supplementary Information

For The Year Ended June 30, 2005

A. SUMMARY OF AUDIT RESULTS

1. The auditor's report expresses an unqualified opinion on the governmental activities, the business type activities, each major fund, and the remaining fund information of Warren County, Kentucky and an adverse opinion on the discretely presented component units of Warren County, Kentucky.
2. No reportable conditions relating to the internal control of the audit of the financial statements are reported in the Independent Auditor's Report.
3. No instances of noncompliance material to the financial statements of Warren County were disclosed during the audit.
4. No reportable conditions relating to the audit of the major federal awards programs are reported in the Independent Auditor's Report.
5. The auditor's report on compliance for the audit of the major federal awards programs for Warren County expresses an unqualified opinion.
6. There are no audit findings relative to the major federal awards programs for Warren County reported in Part C of this schedule.
7. The programs tested as major programs were: State Domestic Preparedness Program
8. The threshold for distinguishing Type A and B programs was \$300,000.
9. Warren County was not determined to be a low-risk auditee.

B. FINDING – FINANCIAL STATEMENT AUDIT

None.

C. FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARDS PROGRAM AUDIT

None.

D. PRIOR YEAR FINDINGS – FINANCIAL STATEMENT AUDIT

None.

E. PRIOR YEAR FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARDS PROGRAM AUDIT

None.

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WARREN COUNTY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Other Supplementary Information

WARREN COUNTY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Other Supplementary Information

For The Year Ended June 30, 2005

Federal Grantor Program Title <u>Grant Name (CFDA #)</u>	Pass-Through <u>Grantor's Number</u>	<u>Expenditures</u>
Cash Programs:		
<u>U.S. Department of Homeland Security</u>		
Passed-Through State Department of Military Affairs:		
State Domestic Preparedness Program	M-03254738	\$ 79,830
State Domestic Preparedness Program	M-02312992	148,917
State Domestic Preparedness Program	M-03140340	38,673
State Domestic Preparedness Program	M-03255396	3,935
State Domestic Preparedness Program (CFDA #97.004)	M-03255125	196,032
Passed-Through Office Of Homeland Security:		
State Homeland Security Grant Program	M-04599435	147,606
Community Emergency Response Team	M-04608214	1,508
Citizens Corps Council (CFDA #97.004)	M-04608857	999
Total U. S. Department of Homeland Security		<u>617,500</u>
<u>U.S. Department of Justice</u>		
Passed-Through State Department Of Justice:		
Byrne Formula Grant (CFDA #16.579)	7058-N2-9/04	170,454
Passed-Through Daviess County, Kentucky Sheriff's Department:		
Community Oriented Policing Services - Methamphetamine Grant (CFDA #16.710)	KY114050	<u>49,523</u>
Total U. S. Department of Justice		<u>219,977</u>
Total Cash Expenditures of Federal Awards		<u>\$ 837,477</u>

WARREN COUNTY
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Other Supplementary Information
June 30, 2005

Note 1 - The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of Warren County, Kentucky and is presented on a modified cash basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations.

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**



CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Michael O. Buchanan, Warren County Judge/Executive
Members of the Warren County Fiscal Court

Report On Internal Control Over Financial Reporting And On
Compliance And Other Matters Based On An Audit Of Financial
Statements Performed In Accordance With Government Auditing Standards

We have audited the financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of Warren County, Kentucky, as of and for the year ended June 30, 2005, which collectively comprise the Fiscal Court's basic financial statements, as listed in the table of contents and have issued our report thereon dated October 13, 2006. We did not audit the financial statements of the Inter-Modal Transportation Authority, Inc., a discretely presented component unit of the Warren County Fiscal Court. Another auditor whose report has been furnished to us audited those financial statements. In addition, the financial statements do not include the financial data of the Southern Kentucky Performing Arts Center, Inc., and the South Central Kentucky Regional Development Authority, discretely presented component units of the Warren County Fiscal Court. Warren County Fiscal Court presents its financial statements on the modified cash basis of accounting which is a comprehensive basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Warren County's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.



Report On Internal Control Over Financial Reporting And On
Compliance And Other Matters Based On An Audit Of Financial
Statements Performed In Accordance With Government Auditing Standards
(Continued)

Compliance And Other Matters

As part of obtaining reasonable assurance about whether Warren County's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

This report is intended solely for the information and use of management, and the Kentucky Governor's Office for Local Development and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen", with a long horizontal flourish extending to the right.

Crit Luallen
Auditor of Public Accounts

October 13, 2006

**REPORT ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL
CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**



CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Michael O. Buchanon, Warren County Judge/Executive
Members of the Warren County Fiscal Court

Report On Compliance With Requirements
Applicable To Each Major Program And On Internal Control
Over Compliance In Accordance With OMB Circular A-133

Compliance

We have audited the compliance of Warren County, Kentucky, with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended June 30, 2005. Warren County's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of Warren County's management. Our responsibility is to express an opinion on Warren County's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Warren County's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of Warren County's compliance with those requirements.

In our opinion, Warren County complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2005.

Internal Control Over Compliance

The management of Warren County is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered Warren County's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.



Report On Compliance With Requirements
Applicable To Each Major Program And On Internal Control
Over Compliance In Accordance With OMB Circular A-133
(Continued)

Internal Control Over Compliance (Continued)

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of management, the Kentucky Governor's Office for Local Development, and federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen", with a long horizontal flourish extending to the right.

Crit Luallen
Auditor of Public Accounts

October 13, 2006

**CERTIFICATION OF COMPLIANCE -
LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAM**

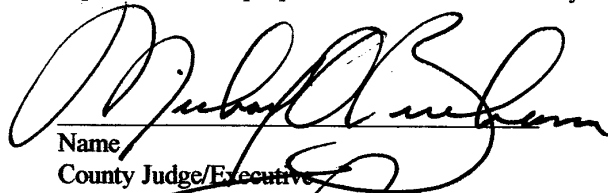
WARREN COUNTY FISCAL COURT

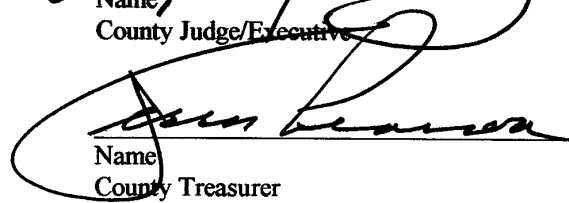
**For The Fiscal Year Ended
June 30, 2005**

CERTIFICATION OF COMPLIANCE
LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAM
WARREN COUNTY FISCAL COURT

For The Fiscal Year Ended June 30, 2005

The Warren County Fiscal Court hereby certifies that assistance received from the Local Government Economic Assistance Program was expended for the purpose intended as dictated by the applicable Kentucky Revised Statutes.


Name
County Judge/Executive


Name
County Treasurer

